U.S. Department of State
FY 2000 Country Commercial Guide: Sri Lanka

The Country Commercial Guides for Sri Lanka was prepared by U.S. Embassy Colombo and released by the Bureau of Economic and Business in July 1999 for Fiscal Year 2000.

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EXECUTIVE SUMMARY

This Country Commercial Guide (CCG) presents a comprehensive look at Sri Lanka's commercial environment, using economic, political and market analysis. The CCGs were established by recommendation of the Trade Promotion Coordinating Committee (TPCC), a multi-agency task force, to consolidate various reporting documents prepared for the U.S. business community. Country Commercial Guides are prepared annually at U.S. Embassies through the combined efforts of several U.S. Government Agencies.

In 1998, Sri Lanka's economy slowed significantly: the GDP growth rate was 4.7 percent, compared to 6.4 percent in 1997. Although the agricultural sector remained strong, the industrial and services sectors weakened, and export earnings slowed substantially. The economy was particularly hard hit by sharply declining world prices for tea and rubber. The government fiscal deficit also soared during 1998 to 9.2 percent of GDP, compared to a projected figure of 6.5 percent. The armed conflict between government forces and Liberation Tigers of Tamil Eelam (LTTE) insurgents continued, and the October 1997 LTTE bombing of Colombo's World Trade Center and adjacent major hotels dealt another blow to investor confidence and tourism throughout 1998.

The Asian financial crisis has not taken a particularly heavy toll on the economy of Sri Lanka, due in part to continued exchange controls on the capital account and relatively low exposure to short-term foreign debt. However, the longer-term impact of the crisis has already slowed investment in Sri Lanka from affected countries, particularly South Korea, Japan, Hong Kong and Malaysia. Nuclear detonations by neighboring India and Pakistan in May 1998 have had a prolonged chilling effect on foreign commercial and investor interest in Sri Lanka, particularly in the stock market.

Real GDP growth in 1999 is expected to be about 4.0 percent. Continued weakness in world prices for tea and rubber will depress export earnings in these sectors, and garment exports, a mainstay of the Sri Lankan economy, are also expected to experience negligible growth during 1999. On the positive side, increased private sector participation in the telecommunications service industry has yielded strong growth and development in this sector. More thermal power generating capacity is slowly being added, and with adequate rainfall for existing hydropower installations, the short-term power outlook is positive.

Longer term prospects are unclear. Resolution of the continuing armed conflict is not expected in the near future.

As the slow pace of infrastructure development, the myriad disputes over public tendering, and the largely unrenovated (after more than three years) bomb-ravaged financial district demonstrate, government decision-making and policy implementation are extremely slow. In the long run, the government's inability to move quickly and decisively on major tendering and investment decisions and implementation could inhibit growth and keep Sri Lanka from reaching its potential.

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Chapter II

ECONOMIC TRENDS AND OUTLOOK

Major Trends and Outlook

Sri Lanka began to shift away from a socialist orientation in 1977, but the pace of reform has been very uneven over the past twenty-one years. Socialist sentiments remain strong among certain groups, particularly in the workforce. In 1983, serious ethnic disputes slowed the process of liberalization and economic diversification. In 1988-90, a violent uprising of the Maoist-communist JVP organization--led by educated but unemployed youth--threatened the Government of Sri Lanka (GSL) and caused extensive upheavals and economic uncertainty. Increased privatization, reform, and an emphasis on export-oriented growth followed the successful quelling of the JVP revolt, taking GDP growth to 7 percent in 1993.

Divisive elections in 1994 slowed growth moderately, with GDP expanding by 5.5 percent in both 1994 and 1995. In 1996, growth slowed considerably--to 3.8 percent--due mainly to a prolonged drought and resulting power cuts, along with major terrorist attacks on civilian targets in the Colombo area. The economy recovered in 1997 registering a growth rate of 6.4 percent, investor confidence slowly began to recover, tourism picked up, exports rose and thermal power generating capacity was expanded. The Asian financial crisis took less of a toll on the economy of Sri Lanka in 1997, due in part to continued exchange controls on the capital account and relatively low exposure to short-term foreign debt.

Growth moderated in 1998 to 4.7 percent, in the midst of a global recession and domestic and regional economic/ political problems. A series of terrorist bombings in late 1997 and early 1998 in civilian areas, including Colombo’s financial district, caused a decline in tourism and investor confidence in the first half of 1998. The situation was exacerbated by nuclear detonations by neighboring India and Pakistan in May 1998 which had a chilling effect on foreign commercial and investor interest in Sri Lanka, particularly in the stock market. Further, the Russian economic crisis in August 1998 caused a marked decline in tea exports and prices. Several other exports were hit hard due to declining demand and competition from cheaper sources in East Asia. On the positive side, both tea and rice output increased significantly in 1998 and garment exports and worker remittances remained strong. Tourism also recovered towards the latter part of the year.

For 1999, real GDP growth is expected to slow down to about 4 percent. The economy is faced with a series of challenges stemming from the slowdown in exports, especially tea and garments. On the positive side, increased private sector participation in the telecommunications service industry has yielded strong growth and development in this sector. More thermal power generating capacity is slowly being added, and with adequate rainfall for existing hydropower installations, the short-term power outlook is positive. Tourism is also likely to have a good year and worker remittances continue to grow.

In the longer term, prospects are uncertain. There are no imminent prospects for settling the ethnic conflict, and defense expenditures remain a significant drain on the economy. Implementation of major reforms in the civil service and education sectors, and more disciplined spending and improved revenue collection would help generate stronger economic growth. If privatization continues and export orientation strengthens, weaknesses in government will be somewhat less critical to growth. We expect to see growth continuing in the 5-6 percent range beyond 1999, still below Sri Lanka's potential. Growth prospects would improve with stronger leadership and more vigorous implementation of economic policy commitments.

Principal Growth Sectors

Growth in the three principle economic sectors moderated in 1998 when compared with 1997. Nonetheless, their performances are laudable in view of the difficult global and domestic economic environment prevailed during the year. The services sector, which accounts for 52.8 percent of GDP, increased by 5.2 percent. The manufacturing sector grew by 6.3. The manufacturing sector's share of GDP was 16.5 percent. The agricultural sector increased by 2.5 percent and accounted for 21.1 percent of GDP. The construction sector did well, growing by 7.1 percent.

The following table presents percentage changes in real sectoral output over the preceding year.

	Contribution to 1998 GDP(a) %	1997(b)	1998(b)
Manufacturing	(17)	9.1	6.3
Services	(53)	7.1	5.2
Agriculture	(21)	3.0	2.5
Mining	(02)	3.8	-5.4
Construction	(07)	5.4	7.1
Real GDP Growth	6.3	4.7	

(a) At current prices.
(b) At constant prices

Agriculture: In recent decades, agriculture's contribution to the Sri Lankan economy has decreased. The agricultural sector's share of GDP has declined from 38.4 percent in 1978 to 26.3 percent in 1990 to 21.1 percent in 1998, as a result of the diversification of the economy and the consequent rise in manufacturing and services, lower prices for commodities such as coconut and rubber, and lower productivity. Despite its relatively small contribution to GDP, the agricultural sector still employs over 38 percent of the working population, and remains a major force in society and politics. Low productivity, especially in subsistence agriculture, including paddy cultivation, is a major concern to policy makers. Efforts are underway to increase productivity in plantation agriculture-- tea, rubber and coconuts --now under private sector management and ownership.

The agricultural sector posted mixed results in 1998. Both tea, the main agricultural export and rice, Sri Lanka's staple cereal did very well, but other agricultural products such as rubber and coconuts declined sharply.

-- The 1998 rice crop yielded a bumper harvest, increasing by a strong 20 percent to 2.7 million metric tons. This is the second highest level of production ever recorded, and only 4 percent lower than the peak production in 1995. Production increased due to good weather, increased area under cultivation and improvements in yield. However, production was sufficient to meet only about 83 percent of demand. To offset supply shortfalls, Sri Lanka imported 168,000 metric tons of rice during the year. A 35 percent import duty on rice was removed temporarily to facilitate the imports.

-- Tea production increased for the fifth consecutive year in 1998. Total production increased by 1.2 percent to 280.1 million kgs. The increase was entirely due to an increase in tea grown in low elevational areas. Low-grown tea, accounts for 54 percent of total production. Both high and medium grown tea production declined during this period. Tea production in the small holder sector continued to increase. The small holder's share in the national output increased to 61 percent. The yield levels in the recently privatized estate sector have been stagnant and are about half the yield level in the small holder sector.

-- Other major export crops, rubber and coconuts, declined in 1998. Rubber production, which has shown a declining trend since 1996, recorded a further decline of 9 percent in 1998. Production was affected by a decline in yield and by a drastic drop in prices. International natural rubber prices have declined due to the release of buffer stocks held by the United States and Thailand. The decline is also attributed to a loss of competitiveness as a result of currency depreciation of other rubber producing countries and a reduction in demand for motor vehicles following the East Asian recession. In order to overcome the crisis in the rubber sector, Sri Lankan rubber producers are increasingly shifting to the production of crepe rubber. Increased local consumption has also helped to stabilize prices somewhat. Sri Lanka exports 44 percent of its rubber output. The balance is consumed locally by the industrial sector. Recently, Sri Lanka decided to withdraw from the beleaguered International Natural Rubber Organization (INRO).

Major reform of the plantation sector (tea, rubber and coconut) began in 1992, when management (but not the land or assets) was privatized. In 1995 the GSL began privatizing regional holding companies. These holding companies obtained 50-year lease rights to the plantations. The GSL sold 20 plantation management companies in 1995-1997. Of these, 14 are listed on the Colombo Stock Exchange and account for about 4 percent of market capitalization. In February 1998, tea and rubber plantation workers obtained substantial wage increases after a nine-day long strike. The new wage agreement contains a formula for profit sharing which would afford the plantation companies the flexibility to weather downturns in prices.

The outlook for the agricultural sector in 1999 is not very encouraging. The paddy sector, which recorded a 20 percent increase in production in 1998, is unlikely to grow further in 1999. Paddy production in the main Maha season has fallen by about 2.5 percent. The smaller Yala crop, which grew by over 16 percent in 1998, is unlikely to record significant growth rates this year. To meet the shortfall, Sri Lanka plans to import at least 100,000 metric tons of rice. In the tea sector, while production is expected to improve further in 1999, prices have tumbled from the very high levels of early 1998. The average price of tea at the end of June 1999 was approximately Rs 100 per kg compared with an average price of Rs 134 per kg in 1998. Rubber production is up 5 percent in the first four months of 1999, but prices are still low. Coconut production has been flat. Tea and rubber account for 17.4 percent of total export earnings. The price drop in these crops, which sustain Sri Lanka's plantation sector, is of concern to policy makers and businessmen.

Industry: Manufacturing accounts for about 17 percent of GDP, about 44 percent of which is textiles, apparel and leather products. Growth in the manufacturing sector was 6.3 percent in 1998, compared with growth of 9.1 percent in 1997. Strong performance of domestic market oriented industries contributed heavily to growth in 1998. Performance in the export oriented manufacturing industries was mixed.

-- The textile, apparel, and leather products sector is the largest industrial sector and accounted for 44 percent of industrial output. This sector grew by 4.5 percent in 1998, a significant slowing down from the 18.7 percent growth in 1998. Garments, mainly exported to the U.S. and Western European markets, account for about 32 percent of manufacturing employment and 46 percent of total exports. There are 860 garment factories in operation. The exporters faced a shortage of U.S. quotas towards the end of the year. The unexpectedly high utilization of certain fast moving categories of U.S. textile quotas prompted the Sri Lankan Government to temporarily stop issuing textile visas for the affected categories of exports. The U.S. is the main export market for Sri Lanka's apparel exports, taking 60 percent of all apparel exports. Data indicate an increase in higher value added items to the U.S. About 77 percent of exports to the U.S. are under quotas. Sri Lanka's textile and apparel industry will need to invest heavily in technology and skills to face increased competition when quotas are fully phased out in 2005.

-- Growth in other major industrial sectors was mixed. The second largest industrial sector, food, beverages and tobacco, contributed 24 percent of industrial output and grew by 9.6 percent, compared with 3.4 percent growth in 1997. Two other major industrial sectors, chemicals, petroleum and rubber products sector and the nonmetallic mineral sector, grew by 13.1 percent and 5.1 percent, respectively.

-- The smaller fabricated metal products and machinery industry grew substantially, by 10.7 percent following a growth of 19 percent in 1997. This sector contributes 4 percent of GDP.

The Government is encouraging production of selected goods for which the country is believed to have a comparative advantage. A range of special incentives is now given for investments in these selected "thrust" industries:
--electronics and components for electronic assembling
--ceramics and glassware
--rubber-based industries
--light and heavy engineering
--cutting and polishing gems, diamonds and manufacture of jewelry.

The 1999 outlook for manufacturing is not bright. Manufacturing sector growth has slowed to 3.3 percent in the first quarter of 1999 from 7.7 in 1998 due to a decline in demand for a range of Sri Lanka's exports including processed rubber, coconut, fiber and ceramic, leather and food and beverage exports. Textile and garment exports, which have grown rapidly in the past, have increased by just one percent in the first four months of 1999.

Services: Services, which account for 53 percent of GDP, grew by 5.3 percent in 1998. The communications sector, boosted by increased private sector participation, continued to grow strongly by a whopping 46 percent following a 33 percent growth in 1997. Electricity sub sector also grew sharply by about 10 percent in 1998. Increased thermal capacity following the addition of 51 megawatts of new thermal capacity to the national grid and increased hydropower generation were the main factors contributing to increased electric power generation. Growth slowed in banking and the insurance sector to 6.4 percent from 10.3 percent in 1997. The decline in external trade constrained the profitability of the banking sector. The stock market downturn also caused portfolio losses in the banking sector and eroded the profitability of stock brokering firms.

The communications and power sectors are expected to be buoyant in 1999, contributing markedly to service sector growth as a result of increased private sector participation. Growth in banking and finance will be under pressure in line with the general slowdown in the economy and slowing external trade. Port services declined in 1998 and the trend has continued into 1999 due to increased competition from regional and Middle Eastern ports. The recent transfer of transshipment traffic from Colombo to Port Raysut in Salalah, Oman by two of the main users of the port, Sea Land and Maersk Shipping Lines, is a major cause for concern. Tourist arrivals continue to recover from the heavy blows suffered in 1996-1997 from terrorist bombings in civilian areas. In 1998, arrivals increased 4 percent to 381,000, but remained below peak arrivals in 1994-1995. Tourist arrivals have remained buoyant in the first half of 1999. Industry sources expect arrivals to increase by at least 10 percent in 1999.

Government Role in the Economy

Historically, the public sector employed one quarter of the work force, but this proportion is decreasing as reforms continue and the private sector’s role in the economy expands. In 1998, employees in government and quasi-governmental agencies made up 17.9 percent of the workforce. The International Monetary Fund (IMF) and the Asian Development Bank (ADB) have been actively pressing for stronger Government action on public sector reforms.

Since 1977, the GSL has been deregulating, privatizing and opening the economy to international competition. It has eliminated most price controls and quotas, liberalized import licenses, terminated export taxes, and sold over 50 state-owned companies. Tariff levels have been reduced on many items, though industry remains critical of high tariffs on a number of imported items and inputs. The Government actively promotes inward foreign investment and has eliminated most foreign exchange controls. In March 1994, it obtained Article VIII status in the IMF.

The state continues to control the price of bread, petroleum, bus and rail fares, telecom rates, and electricity. In addition, utilities and fertilizer are subsidized or have below-market prices. Aware of many of its shortcomings, the Government has been striving to eliminate subsidies and free-up prices, but finds it politically difficult. In 1998, the Government managed to fully phase out a subsidy on wheat flour, due to low world market prices for wheat. However, a move to increase rail fares failed. The Government is also moving to open the economy to more private sector participation and competition, albeit at a slower than desirable pace. Foreign shipping companies express concern that government-regulated fixed fee levels for a variety of port and related services are anti-competitive and make Sri Lanka's port less attractive in the long run. In May 1999, the Government announced a new film policy with plans to liberalize the import and distribution of motion films which is currently controlled by the state owned National Film Corporation.

Privatization: The state retains control over a great deal of infrastructure (ports, roads, rail and electricity). It owns the two largest commercial banks, two insurance companies, a national shipping line, and many other companies. The Government has taken steps to privatize some of the utilities and infrastructure sectors. In early 1998, the Government completed the sale of 40 percent of Air Lanka, the national airline, to Emirates of Dubai, UAE. Although the Government retains majority ownership, it ceded managerial control to the new owners. In August 1997, the Government sold 35 percent of Sri Lanka Telecom (SLT), the state-owned telecommunications entity, to Nippon Telephone and Telegraph (NTT) of Japan. The privatization deal also kept majority ownership for the Government but gave management control of SLT to NTT. In 1996, well ahead of SLT privatization, the Government effectively ended the state monopoly on telephone landlines when it approved the provision of 200,000 new lines, based on wireless local loop technology, by two private companies. In the power sector, the first medium scale BOO-BOT power project of 51 MW (megawatts) started operations in June 1998. Finalization of the contracts for this project took about four years of protracted negotiations. Since December 1998, the Government has awarded tenders or issued Letters of Intent for three other medium to large-scale BOO-BOT power projects, the largest being a 150 MW combined cycle power plant awarded to Virginia-based AES Corporation. In the ports sector, after several years of negotiations, the GSL initialed primary project agreements with a private sector consortium including P&O Netherlands and local conglomerate John Keells Holdings to expand and operate the main port in Colombo. The agreements are expected to be finalized in late July and the QEQ handed over to SAGT in August 1999.

Following a competitive tender process, Caltex bought control of Lanka Lubricants in 1994, the Colombo (bottled) Gas Company was sold to Shell Oil in late 1995, and the Colombo Steel Corporation was bought by the Korean company Hanjung in December 1996. The Caltex-Lanka Lubricants venture has been extremely successful. However, both the gas and the steel companies were troubled by labor unrest in 1996 and 1997, but seem to have put those problems to rest since then. Government-owned plantations have been privatized under long-term lease arrangements, and some shares have been offered to the public, with good results. Many other ventures are also slated for privatization, though the GSL agency responsible for privatization, the Public Enterprise Reform Commission (PERC) is now proceeding carefully and slowly, and avoiding the most controversial entities. Further, given the depressed conditions of capital markets the privatization process slowed in 1998. As a result, there have been no major privatization sales during the past twelve-month period. During the second half of 1999, a further 10 percent stake of SLT will be sold. The Government also hopes to sell several small livestock companies as well as minority stakes in several regional plantation companies and an insurance company, but some of them may be delayed. The Government also has plans to restructure several important government departments such as the Postal Department, Railways Department and Ceylon Electricity Board under government ownership. Privatization of the state banks is not considered feasible in the short term due to current political constraints. In a bid to overcome the problems at the state owned banks, the Government signed two agreements with the Bank of Ceylon and the People's Bank on July 16, 1998. These agreements aim at commercializing and consolidating operations. The Government is expected to sign fresh agreements with the two banks incorporating corporate plans in the near future. The future public sector reform program will largely depend on a study now being done by Arthur Andersen. This study will map out the reform strategies on privatization, capital and financial markets and labor markets, for the next 4-5 year period. The Asian Development Bank is expected to fund the reforms program.

Government procurement: While Government of Sri Lanka representatives at the highest levels have emphasized the importance of reform and transparency in policy announcements and publications on government procurement, unfortunately procedures for bidding on major government projects and supply contracts in practice are still not transparent or predictable, and lengthy unexplained delays (of years, rather than months) are common. Competitive bids are normally reviewed by a Technical Evaluation Committee, which makes recommendations to a Cabinet-Appointed Tender Board (CATB). The CATB then makes its recommendation to the relevant line ministry, which forwards a final recommendation to the Cabinet for approval. The deliberations and decisions of these different bodies are made "in secret," although information often "leaks" out.

The Cabinet has been known to reject recommendations and choose less competitive bidders on obscure or unsubstantiated grounds. Procuring agencies sometimes fail to follow up in making the contracted procurement. In addition, the Government has abruptly canceled tenders (or reneged on signed or implicit contracts that resulted from tender decisions) with no adequate explanation or compensation, causing significant financial hardship and inconvenience to the winning bidders. Military procurements are often made completely outside of normal tendering procedures, resulting in no transparency or accountability.

The Ministry of Finance and Planning in September 1996 issued "Guidelines on Government Tender Procedure" and reissued an expanded version of these guidelines in August 1997. The stated intent of the guidelines is to "reduce the time taken for the tendering process to six months, while keeping the whole process transparent and ensuring a level playing field to all tenderers." As of mid-1999, this intent has not yet been realized, based on the experience of numerous U.S. companies and their agents. For example, although the guidelines stipulate that appeals can be directed to a Tender Appeal Board, no such entity has yet been established. As a result, there is no functioning appeal mechanism in place.

Budgetary performance: The budget deficit in 1998 (excluding grants and privatization proceeds) at 9.2 percent of GDP, was much higher than the planned deficit of 6.5 percent. Government fiscal control faced a major setback in 1998 due to large expenditure overruns on defense, wages and pensions, and major shortfalls in revenue. The defense bill rose 13 percent to Rs 57.1 billion ($885 million, or 5.6 percent of GDP). Total revenue as a percentage of GDP declined for the third consecutive year, to 17.3 percent. Tax revenue was sluggish and increased only marginally by 3 percent in nominal terms. Consequently tax revenue at 14.5 percent of GDP fell short of a planned 18.4 percent target, and was the lowest recorded tax/GDP ratio since 1950. One of the major causes for the slackness in tax collections was the lower revenues generated from the Goods and Services tax (GST) introduced in April 1998 in place of the turnover tax. The GST is the most important tax source for the government. However, the current 12.5 percent GST rate is well below the revenue neutral tax rate of around 17 percent, which is a major cause for concern. Revenue from income tax and import duties was also lower than targeted due to various tax exemptions for investors, lower import tariff rates, and lower international prices for Sri Lanka’s imports. Public investment was 6.7 percent of GDP, a significant improvement from the previous two years’ spending level of around 5.9 percent, and was made possible due to higher utilization of foreign concessional loans. Public investment was concentrated on vital economic infrastructure such as power, ports, telecommunications, water supplies and roads development. The budget deficit was financed mainly through domestic borrowings (7 percent of GDP). Foreign borrowings were about 1 percent of GDP and foreign grants, 0.7 percent of GDP.

Total government debt rose to Rs 907 billion ($14 billion), or about 89.4 percent of GDP from 86 percent in 1997. Domestic debt was Rs 446 billion and foreign debt was Rs 460 billion ($7 billion). Despite the difficult fiscal environment, the government continued its policy of making the government debt program more market-oriented and reducing the stock of short-term debt. Interest payments declined to 5.4 percent of GDP from 6.2 percent in 1997. However, interest on Government debt continues to be a drag on expenditure, absorbing 20 percent of total government expenditure and 28 percent of government revenue. This interest on the public debt along with total expenditure on defense, public sector salaries, and pensions to retired public servants account for nearly 80 percent of total current expenditure. Therefore, the creation of a more balanced expenditure structure that effectively promotes long-term economic growth is a major challenge to the Government.

Sri Lanka looks set to overshoot the 1999 deficit target as well. The Government has revised budgetary targets and currently expects a deficit of around 7.8 percent of GDP, higher than the original target of 6 percent of GDP, or Rs 68 billion, announced when the budget was presented to Parliament in late 1998. The revision came in view of the slow down in the economy which has dampened tax revenue and due to an increase in debt service due to higher borrowings in 1998. The Government has vowed to keep defense expenditure at the budgeted level of Rs 47.3 billion through enhanced monitoring and control of expenditure. This is a major cutback from the Rs 57 billion spent in 1998. The revised budget estimates forecast total expenditures to rise 8 percent. Current expenditure is to rise just 3 percent and public investment is forecast to grow by 24 percent to 7.4 percent of GDP. GSL revenues are forecast to increase by 15 percent in 1999, much more than the expected inflation rate of around 10 percent. Priority in the capital investment program will be the development of economic infrastructure: transport, ports, telecommunications, power, and industrial infrastructure.

The budget for 1999 did not contain any major surprises or giveaways. However, the Government did not deviate from policy measures adopted in the past four years-- i.e. it did not propose major new subsidies, did not change open market policies, investment policies or macroeconomic policies. At the same time, the budget did not contain substantial measures to be taken in 1999 to address issues of critical importance in vital sectors such as public service, pensions, health, taxation, and public transport.

The following table presents Government fiscal operations as a percentage of GDP. 1998 figures are provisional and 1999 figures are projections:

Government Accounts
(Percent of GDP)

	1997	1998	1999
Revenue	18.5	17.3	17.7
Expenditure and net lending	26.4	26.4	25.5
Defense	5.1	5.6	4.1
Budget deficit before grants	7.9	9.2	7.8
Domestic finance	3.4	7.0	5.3
Privatization proceeds	2.5	0.4	0.7
Foreign grants and loans	1.9	1.7	1.8

Prices and Money: Money supply (M2) growth was 13.2 percent in 1998. Domestic credit expanded by 14.4 percent largely due to a hefty 42.8 percent increase in credit to the Government including a $100 million loan raised through the foreign currency banking units of commercial banks present in Sri Lanka. Private sector credit grew moderately by 11.8 percent due to slower economic growth and a slowdown in external trade. Despite the increase in government sector credit, the slow growth in private sector credit and a significant reduction in foreign inflows helped contain monetary expansion and inflation in 1998.

Inflation, as measured by the Colombo Consumer Price Index, was 9.4 percent in 1998, around the same level as in 1997. Inflation has slowed since then to around 6 percent as of June. Price reductions in major imports such as wheat, petroleum, and sugar have helped to keep inflationary pressures under control. M2 growth in the first four months of 1999 was 13 percent, indicating upward pressure on inflation in the next few months.

Monetary policy management was difficult in 1998 in view of the unstable external environment and the large government budget deficit. The Central Bank tightened monetary policy in the first half before relaxing it somewhat towards the end of the year. The Central Bank adopted open market policies with the Central Bank repurchase rate serving as the main signaling mechanism. The statutory reserve requirement for commercial banks remained unchanged at 12 percent. Commercial banks were allowed to include their Treasury bond holdings as part of their liquid assets. Despite increases in the Government fiscal deficit, interest rates were generally stable in 1998. As of July 1999, 3-month and 12-month Treasury bill interest rates were 11.85 and 12.69 percent, slightly higher than in 1998. Interest rates are expected to remain around current levels in the next few months, moving up slightly towards December. Average lending rates moved down slightly from 20.5 percent in 1997 to 19.56 percent in 1998. The weighted average prime lending rate was 14.9 percent and applied to prime customers of commercial banks. Throughout 1998, the Central Bank floated several long-term credit instruments including rupee loans and treasury bonds of varying maturity.

Interest rate on these long-term loans averaged around 12 percent.

Balance of Payments

Sri Lanka’s trade and current account deficits narrowed in 1998. Due to a slowdown in net capital inflows, however, the Balance of payments recorded a smaller $37 million surplus, compared with a surplus of $163 million in 1997.

Export growth slowed considerably to 2 percent compared with a growth of 13 percent in 1998. Despite a 12 percent increase in the import volume, import expenditure increased only marginally by less than 1 percent. Consequently, Sri Lanka’s trade deficit narrowed in 1998, to $1,157 million, for the fourth consecutive year. The services account recorded a surplus of $143 million, down 10 percent from $159 million in 1997, due to a slow down in port services. Private transfers were up 18 percent to $848 million. Private transfers include $78 million received as compensation to Sri Lankans who lost employment in Kuwait in 1990 due to the Gulf War. In 1997, Sri Lanka received $63 million as compensation. Official transfers decreased by 11 percent to $120 million. The deficit in the current account declined from $393 million in 1997 to $289 million in 1998. The current account deficit has continuously declined in the past four years from a high of $860 million in 1994.

Private investment was low in 1998 when compared to 1997 due to a sharp drop in privatization receipts. Net long-term private capital inflows dropped to $200 million in 1998, from $477 million in 1997. Privatization receipts were $56 million, compared with $300 million in 1997. The privatization program slowed in 1998 due to uncertainty in the capital markets. However, foreign direct investment inflows were $150 million, compared with $133 million in 1997 and $100 million in 1996. Private investment was higher in telecommunications and power sectors. Foreign direct investment outflows were $13 million in 1998. Other net long term capital inflows were $7 million, compared with $47 million in 1997 mainly due to higher outflows for an advance payment of $48 million for six Airbus aircraft for Air Lanka which is held jointly by the Government and Emirates Airlines of UAE. Two large institutions, Development Finance Corporation of Ceylon and Sri Lanka Telecom, raised several foreign loans to the value of $108 million in 1998 to finance development projects. Portfolio investment through the Colombo Stock Exchange resulted in a net outflow of $24 million in 1998.

In 1998, Sri Lanka received $578 million from the donor community in grant aid and concessional assistance. The major donors were the Asian Development Bank, Japan and the International Development Association. U.S. assistance on a disbursement basis amounted to $11.75 million, $1.75 million of which constituted development assistance and $10 million, concessional agricultural loans for the sale of wheat. In addition to the concessional funding, the Government raised $100 million through the Foreign Currency Banking Units of Commercial Banks in Sri Lanka.

Sri Lanka's gross external assets of $2,907 million in December 1998 were sufficient to finance 5.9 months of imports of goods and services projected for 1998.

International Trade: Sri Lanka's trade deficit contracted by 5.5 percent to $1,157 million in 1998. Both export and import growth slowed. Exports were up by $68 million, to $4,735 million. Sri Lanka's two main exports, garments and tea, contributed strongly to this growth. Garment exports rose 8 percent ($186 million) to $2,460 million. Earnings from tea exports also rose 8 percent ($61 million) due to increases in prices and production. Two other important export sectors, footwear & leather products, and food & beverages also did well in 1998, increasing by 17 percent and 20 percent respectively. Several other exports decreased. In the agricultural export sector, earnings from rubber exports declined sharply by 45 percent on top of a 24 percent decline in 1997, due to lower prices and a decline in export volume. Earnings from coconut exports were down 20 percent. Thanks to increased prices, earnings from other agricultural exports were up 17 percent. A range of manufactured exports such as petroleum products, ceramic products, scrap metal, machinery and equipment, diamonds and jewelry declined. Some of these items such as ceramics, diamonds and jewelry have faltered in the face of decreased demand in recession-hit Japan and Thailand, and increased competition from cheaper sources in East Asia.

Despite a significant increase in the import volume, import expenditure increased by just $27 million to $5,891 million, reflecting lower prices for Sri Lanka's imports. Investment goods imports rose by 11 percent. Machinery imports rose by 6 percent. Building material imports increased 11 percent and transport equipment by 27 percent. In the intermediate goods category, imports fell 4 percent. The largest single import category, textiles for the garment export industry, grew by less than 1 percent despite a 10 percent increase in volume.

Consumer imports increased by 2.6 percent. The food import bill declined 7 percent to $723 million due to decreased imports and a reduction in food prices. Reflecting higher local production, rice imports declined by 42 percent to 168,000 metric tons in 1998 and cost $42 million. Wheat imports increased 11.5 percent to 880,000 metric tons in 1998 from 789,000 metric tons in 1997. However, lower world market prices caused the wheat import bill to decline from $139 million in 1997 to $127 million in 1998. Sugar imports also declined in 1998. Imports of non-food consumer goods increased by 20 percent in 1998.

The United States is Sri Lanka's largest export market and the destination for $1,890 million, or 40 percent of exports, predominantly garments. Sri Lanka's garment industry is heavily dependent on the U.S., with 60 percent of all garment exports bound for U.S. Japan edged into position as Sri Lanka's largest supplier with exports of $556 million in 1998. India, the largest source of Sri Lanka's imports in 1996 and 1997, was the second largest supplier in 1998. Other leading suppliers were South Korea, Hong Kong, Taiwan and Singapore. The United States remained the eighth largest supplier to Sri Lanka with a 4.8 percent market share. According to statistics compiled by the Central Bank of Sri Lanka, imports from the U.S. amounted to $230 million in 1998 compared to $187 million in 1997 and $198 million in 1996.

According to U.S. Customs' statistics, U.S. exports to Sri Lanka were $190 million in 1998 compared to $155 million in 1997 and $211 million in 1996. Wheat accounted for 28 percent of U.S. exports. For many years, U.S. exports to Sri Lanka were dominated by wheat. However, with the curtailment of concessionary funding programs, as well as increased trade in other areas, the U.S. export mix continues to evolve. Machinery and equipment (radio, navigation, television, telecommunication), computer equipment, textile fabrics, paper, aircraft parts, medical instruments, insecticides, synthetic rubber products, plastic, fruits, pharmaceuticals, books and cotton constituted the bulk of these exports. Sri Lanka's trade surplus with the U.S. in 1998 increased by 8 percent, exceeding $1.5 billion.

Exchange rate: The currency crisis in East Asia had little impact on the Sri Lankan rupee mainly due to existing capital account controls and small exposure to short term debt. The Central Bank also stepped up its surveillance on bank operations and used moral suasion to counteract excessive speculative forces. Another factor, which helped to maintain relative stability in Sri Lanka's financial markets, was the management of the exchange rate. The Sri Lankan rupee has a managed float. The Central Bank monitors the rupee's float closely against a basket of major currencies and intervenes to reduce excessive volatility of rates. The Sri Lankan rupee was allowed to depreciate 9.6 percent against the dollar in 1998 as against 7.5 percent in 1997. It depreciated 13.4 percent against the SDR. The higher depreciation against the SDR reflects the significant depreciation of the dollar against major currencies. The real effective exchange rate depreciated by 12 percent. In the first half of 1999, the rupee fell another 4.6 percent against the dollar.

Debt service: Debt service as a percentage of exports and services increased marginally from 13.3 percent in 1997 to

13.4 percent in 1998. Sri Lanka's external debt (both private and public) stood at $8,753 million at end of 1998. Total external debt was equivalent to 57 percent of GDP. Government or government-guaranteed debt accounted for 91 percent of total external debt.

The balance of payments outlook for 1999 is mixed. External trade has declined considerably in the first four months of 1998. Exports were down 13 percent and imports 17 percent. Sri Lanka's main exports, tea and garments, the star performers in 1998, have faltered during this period dragging down export earnings. According to the latest statistics, earnings from tea exports have declined 40 percent through May 1999. Tea prices which dropped markedly after the Russian economic crises in August 1998, are still hovering around Rs 100 per kg on average compared with an average of Rs 134 in 1998. Tea export volumes have dropped marginally by about 3 percent. Apparel exports have dropped by nearly 9 percent through April, but may pick up in the second half with high value winter clothing orders. A range of other exports such as rubber, coconut, diamonds, jewelry and gems are facing stiff competition due to a fall in demand and price declines due to higher currency depreciation in East Asia. In addition, freight rate increases from Colombo have also rendered exports like coconut fiber and ceramics noncompetitive. As a result, export growth is likely to be negative in 1999. Imports are expected to remain flat, and the trade deficit is likely to increase slightly. The service balance is likely to be boosted by a strong growth in tourism. Revenues from port services, however, are under pressure due to a drop in transshipment traffic. Private transfers, another major source of foreign income, have risen 8 percent during the first quarter. Foreign direct investment inflows will increase in 1999, if major private sector infrastructure projects, now under negotiation with foreign joint venture companies in ports and power, get off the ground quickly. In addition, the sale of a 10 percent stake of Sri Lanka Telecom now being finalized is expected to generate substantial foreign capital inflows in the range of $100 million. Portfolio investment flows are likely to be negative in 1999 due to a lack of investor interest in the Colombo stock market. The stock exchange recorded a net outflow of about $14 million in the first half of 1999. The Government expects to receive $110 million in foreign grant aid and about $500 million in concessional and commercial loans in 1999 which could partly offset any gaps in FDI. In addition, the Government is planning to raise $200 million in international financial markets to boost much needed finances. However, it is not yet clear if proceeds could be realized in 1999. On the other hand, payments for nine airbus aircraft, for which orders have been placed in 1998 and 1999, will be a drain on the country's external finance.

Infrastructure Situation

Sri Lanka’s infrastructure and its management are inadequate. Investment in transport (airports, ports, roads) and power has been marginal in the recent past, while demand continues to grow. Telecommunications infrastructure, while not completely adequate, is the one bright spot in infrastructure development, thanks to liberalized policies which have rapidly allowed significant private sector participation and considerable growth in the sector. Given budgetary constraints and the incapacity to absorb aid fully, the Government of Sri Lanka is promoting private infrastructure, particularly through build-own-operate (BOO) and build-own-transfer (BOT) schemes. The Bureau of Infrastructure Investment (BII) in the Board of Investment (BOI) is the primary authority for promoting and developing such projects. However, the BII has few successes to show for its efforts to date.

Sri Lanka is served by a fairly modern (by regional standards) international airport and three commercial ports, the largest being the port of Colombo. The Government of Sri Lanka has extensive plans for the development and expansion of the Colombo Port. Colombo has an annual capacity of 1.7 million TEU’s. Plans are underway to expand the existing Queen Elizabeth Quay (QEQ) on a Build-Operate-Transfer (BOT) basis with private sector financing and to develop the North Pier with Japanese OECF financing. Up to now, the development work of the Port of Colombo has been largely financed by loans provided by the OECF. QEQ is to be developed by South Asia Gateways (SAGT), a joint venture between P&O Netherlands, P&O Nedlloyd and local conglomerate John Keells Holdings Ltd. Under the first phase of the project, the capacity of the QEQ will be increased by 750,000 twenty foot equivalents (TEU) at a cost of $240 million. The project will involve the construction of three container berths. The second and third stages of the expansion plan cover the construction of a new breakwater and development of outer harbor facilities. The entire project is estimated to cost $850 million. The Government issued a letter of intent for the first phase of this project in February 1995, however, the project has experienced lengthy delays in part due to the port unions’ vehement opposition to privatization. After several years of negotiations, the Government signed primary project agreements with SAGT in June 1998. Agreements are expected to be finalized in July 1999. Construction and operation work of the port development project is planned to commence in the fourth quarter of 1999. The new North Pier development program envisages developing the north pier area, which is currently serving as an oil jetty, into a multipurpose terminal with facilities to handle break-bulk, bulk and containerized cargo. The Government has pre-qualified contractors for this project. However, no further action has been taken.

The Government of Sri Lanka has been trying to develop the southern port of Galle since 1994. The Government issued tenders for the development of Galle port two times, and in 1996 issued a letter of intent to a Chinese-British consortium, which it cancelled in early 1998. In mid 1998 the Government commissioned a study for the phased development of a master plan for developing the port of Galle. Based on the study the Government has decided to develop a smaller area of the Galle port initially. The project will increase break bulk and container capacity of the port.

There are plans to expand the Bandaranaike International Airport (BIA) at Katunayake, on the outskirts of Colombo with Japanese OECF financing.

Inland transportation is dominated by road, but the system has hardly changed since independence, 50 years ago. Proposals to widen large sections of the existing trunk roads leading to key cities are slowly being implemented. These trunk roads presently are not wide enough for standard two-way traffic. A total of 345 kilometers of main roads and 47 bridges will be upgraded within a five year period with the assistance of the Asian Development Bank and the OECF. Total project cost is estimated to be $123 million. The ADB approved a $80 million loan for this purpose in December 1998. The Government is moving ahead with plans to develop two new highways; (a) A new 128 Kilometer highway from Colombo to the southern city of Matara will be funded by the OECF, Japan and the ADB. Construction is expected to begin in 2001. Total project cost is estimated at around $285 million. (b) A four-lane expressway linking capital Colombo to the international airport in Katunayake. The expressway will be approximately 25 kilometers in length, with four interchanges, several over-passes and underpasses and user fee levying facilities. The GSL has invited proposals from eight short-listed bidders for the design and civil construction of the expressway. In addition, several other inner and outer circular roads in Colombo are being upgraded.

Sri Lanka’s energy policy has come under sharp criticism in recent years, as droughts underscored Sri Lanka’s heavy reliance on hydropower and caused a severe power shortage in 1996. Hydropower was also affected by continued dry weather in the first half of 1997, but because the country retained some of the temporary--and costly--thermal capacity rented by the Ceylon Electricity Board (CEB) to handle the 1996 power crisis, there were no major difficulties during 1997. Many large industrial and commercial organizations now have standby generators which were imported during the power crisis in 1996 under a concessional government funding program.

As of July 1, 1999, Sri Lanka’s installed electrical capacity of 1,636 MW consists of 1,139 MW of hydropower and 497 MW of thermal power. This 69:31 hydro to thermal ratio is a measurable improvement over the 81:19 ratio of 1996. In 1997, 178 MW of long-term thermal power was added to the national grid, and a 51 MW BOO-BOT thermal power project was commissioned in June 1998. A further 40 MW will be added to the national grid when a thermal power plant now under construction becomes operational in late 1999. There are plans to boost electrical power capacity further in the next few years. In February 1999, the Government signed an agreement for a 60 MW barge mounted power plant which is expected to be commissioned in late 2000. In addition, negotiations are in progress with Virginia based AES Corporation for a 165 MW combined cycle power BOO project. The Government has recently awarded a tender to build two smaller thermal power plants of 20 MW in two provincial towns under BOOT basis. Tendering is also in progress for another 150 MW combined cycle power plant and a 70 MW hydro power plant, to be funded by the OECF of Japan. The Government has recently received environmental approval for a 300 MW coal fired power project.

Sri Lanka will need to add 2500 MW of new generating capacity between 1999-2012; during the same period, the CEB hopes to achieve a hydro:thermal balance of 1:2. Environmental groups and nearby residents often object to and actively demonstrate against both hydro projects and thermal projects.

The telecommunications infrastructure has been expanded and modernized recently, due to increased private sector participation. As of January 1, 1999 there were 455,600 subscribers and another 224,400 on the waiting list of the state-owned Sri Lanka Telecom (SLT), which until 1996 had a monopoly over land line phones. In 1996, two private operators were authorized to provide land connections using wireless-loop technology. Each wireless loop service provider is expected to add 100,000 new lines by 2000. As of December 31, 1998, 68,000 subscribers were connected to these services. In addition, private companies provide 174,200 mobile phone connections, radio paging, data communication, Internet service and satellite link-ups, relieving some of the pressure. Private operators continue to expand and upgrade their services.

The August 1997 sale of a 35 percent stake in SLT to Nippon Telegraph and Telephone (NTT) of Japan created a "strategic partnership" which expected to lead to greater investment in and maintenance of lines, as well as improved efficiency and service. Since then, as expected, SLT has been vigorously pursuing an expansion plan with some of the projects being funded by the OECF, Japan. SLT also raised a $60 million syndicated loan facility locally in December 1998 to meet expansion costs. The privatization agreement included a provision to extend SLT's monopoly control over all the main international switches until 2002. This represents a backtracking by the Government on an earlier WTO commitment to eliminate the monopoly by 2000 and affects the competitiveness of other operators in the sector.

The semiautonomous Southern Development Authority (SDA), set up in 1996, put forward an ambitious development scheme for the south, including private sector construction of and financing for an airport and seaport near Hambantota, as well as major expressways and power projects. The SDA called for expressions of interest for these projects in May 1997, and in February 1998, eight investor groups were short listed. However, none of the projects got off the ground. The Government is now hoping to call fresh requests for proposals.

The government-sponsored Computer and Information Technology Council of Sri Lanka (CINTEC) has been tasked with helping to raise awareness and seek solutions for the Y2K problem. A National Y2K Task Force (NTF) set up under the supervision of the CINTEC continues to identify the readiness of vital economic sectors and utilities. It is moving into contingency planning stage from July 1999. NTF plans to have an operational room with connections to operations rooms of key sectors. The Government has obtained a loan of $29 million from the World Bank’s International Development Association (IDA) to address Y2K issues in the banking sector and other critical government agencies. The Central Bank is working closely with banking and financial sector institutions to ensure Y2K readiness of the sector. All commercial banks are expected to be Y2K ready by September 30, 1999. Other vital sectors such as electricity, airport and civil aviation, sea ports, water, gas, petroleum, telecommunications and either already compliant or will be made compliant before September 30, 1999. Information about Sri Lanka’s Y2K readiness is available in the NTF website http://www.cintec.lk/Y2K

Chapter III

POLITICAL ENVIRONMENT

Nature of the Bilateral Relationship with the United States

The United States and Sri Lanka enjoy good relations. The two countries celebrated 50 years of diplomatic relations in April 1998, following Sri Lanka's marking of 50 years of independence in February 1998. The Government of Sri Lanka is currently fighting Liberation Tigers of Tamil Eelam (LTTE) insurgents, who seek to create a separate state in the North and East. The U.S. Government supports the territorial integrity of Sri Lanka and has called for a peaceful resolution of the conflict which protects the interests and dignity of all communities. The conflict is likely to drag on until the LTTE abandons its demand for a fully independent state, which it thus far shows no sign of doing.

In October 1997, the State Department formally designated the LTTE as a foreign terrorist organization, along with 29 other terrorist organizations around the world. This move was welcomed by the Government of Sri Lanka.

The U.S. Government maintains low-level military exchange, exercise and education programs with Sri Lanka similar to programs conducted in 40 other countries in the region. The U.S. military is not operationally involved in the ongoing conflict, and any training with U.S. forces takes place well away from operational areas.

The U.S. Government has increasingly become involved in commercial disputes on behalf of U.S. companies experiencing difficulties with Sri Lankan Government tenders and projects, and these have placed some strain on the bilateral relationship.

Major Political Issues Affecting the Business Climate

The most serious political issue affecting the investment climate is the ongoing armed conflict. This conflict has its roots in long-standing ethnic tensions between the majority Sinhalese (70-plus percent of the population) and minority Tamil (approximately 18 percent) communities (in addition, the Muslim community comprises more than seven percent of the population). It has brought direct military confrontation and sometimes heavy fighting to the island's northern and eastern provinces and has led to terrorist attacks elsewhere. The January 1996 destruction of the Central Bank and surrounding buildings in the financial district, the October 1997 bombing of the World Trade Center and adjacent five-star hotels in the same vicinity and the January 1998 attack on the country's pre-eminent Buddhist shrine in Kandy, Temple of the Tooth Relic, were particularly hard blows to investor (and tourist) confidence. So far, foreigners have not been targeted in any LTTE attacks, but several have been seriously injured. For expat business persons working in Colombo and elsewhere, the primary security concern is being in the wrong place at the wrong time.

Outside the armed conflict, businesspeople remain concerned about lethargy and indecisiveness in the bureaucracy, the politicization of major government projects and deals, inadequate maintenance and upgrading of infrastructure, corruption, inflexible labor laws on downsizing, and militant trade unions.

Private investment, which was slowly improving in 1997, is suffering again due to the Asian financial crisis and the Indo-Pak nuclear detonations of May 1998. The Colombo Stock Exchange also continues to face declines due to slumps in foreign investor confidence. Although the Government is committed to greater private sector role in the economy, there is still some resistance -- mainly from socialist and communist-oriented politicians, including some who are part of the governing coalition -- which must be addressed with stronger leadership and management. Long-term growth and stability will require effective public administration and implementation of reforms and policy commitments.

Political System, Schedule for Elections and Orientation of Major Political Parties

Sri Lanka has been a functioning democracy since gaining independence in 1948. It has an executive presidency and a unicameral parliament. Legislative drafting is generally handled by the executive. Constitutional reform packages under active consideration could eliminate the presidency and return the country to a British-Westminister Cabinet System of government, and lead to broader powers for parliament and the prime minister. Power in almost all spheres of public life rests with the center, but additional proposals to devolve power to smaller units of regional or local government are also under review.

Elections for all provincial councils, except in the northern and eastern conflict areas, were held in the first half of 1999. The governing People’s Alliance (PA) coalition won the most votes in each province. Presidential and parliamentary elections are due to be held by the end of 2000, although it is widely anticipated national elections will be called early than that.

The Sri Lanka Freedom Party (SLFP) is the dominant partner in the PA coalition which came to power in late 1994. Traditionally expousing a leftist political and economic philosophy, the SLFP publicly endorses free-market policies. As previously noted, implementation of the policy is uneven.

Sri Lanka pursues a "non-aligned" foreign policy, while maintaining strong trade relations with the West.

The United National Party (UNP) is the leading opposition party. During its seventeen years in office (1977-1994), the UNP was a strong advocate of an open economy and was instrumental in building closer economic relations with the West. Like the SLFP, the UNP supports a non-aligned Sri Lanka.

Chapter IV

MARKETING U.S. PRODUCTS AND SERVICES

Distribution and Sales Channels

International trade is centered in Colombo, with more than 90 percent of all imports and exports passing through the port of Colombo. While there are many medium to small importers, 20 to 30 relatively large firms handle the bulk of international traffic. Only a few importers control distribution networks elsewhere in the country; most simply wholesale directly to regional distributors or to retailers. The Government's role in trade and distribution is minimal, except in the case of the food sector, which is controlled for national security reasons. Inland transport is dominated by independent truckers.

Use of Agents/Distributors; Finding a Partner

Most foreign firms select their local agents on the basis of financial stability and technical capability. As the largest trading houses represent many (sometimes competing) foreign principals, medium and smaller firms are becoming more attractive. If products require stocking or servicing, however, large firms are often better. Sales commissions paid to agent's range from 5 percent to 20 percent, depending on sales volume and the product price. Agency relationships can be terminated for inefficiency, misappropriation, or inability to fulfill contractual obligations.

Franchising

Franchising is not as common as agent/distributorships. The few U.S. franchises include Coca Cola, Pepsi, Pizza Hut, UPS, Federal Express, Kentucky Fried Chicken (KFC) and McDonald's.

Direct Marketing

Direct marketing usually takes place when a product is sold on a one-time or irregular basis. Companies with regional branches or representatives have successfully entered the market directly, but an agent is often crucial to penetrate the market.

Joint Ventures/Licensing

Joint ventures have become popular in recent years, particularly in export-oriented projects. Joint ventures are eligible for the same preferences and tax benefits as domestic companies. There are no restrictions on foreign ownership, except for certain specified sectors (see Chapter VII). Only a few foreign companies have licensed products or services to local companies. Two prominent licensing agreements involve

Cable News Network of the U.S. (broadcasting services) and Clipsal of Australia (electric switch manufacturing).

Steps to Establishing an Office

A foreign company must apply to register with the Registrar of Companies in order to establish an industry or a branch office in Sri Lanka. The application for registration should be accompanied by a certified copy of the charter, statute or memorandum and articles of association of the company; a certified copy of the incorporation of the company; a list of directors; names and addresses of company directors resident in Sri Lanka; a statement containing the full address of the registered or principal office of the company and principal place of business within Sri Lanka; and, a valid Power of Attorney authenticated using the seal of the company authorizing the person or persons resident in Sri Lanka to act on behalf of the company. The registration fee is on average about $100; the fee varies according to the amount of issued share capital.

A foreign company may also establish a liaison office in Sri Lanka. In addition to the above certificates, the application for registration should include a written undertaking that the company will not engage in any export, import, trade or investment in Sri Lanka. A liaison office can engage in market promotion activities, extend technical support, and source raw materials and manufactured products.

A branch office must file the statutory company documents (annual accounts, returns to be filed) as well as copies of accounting statements compiled under the company's country of origin. There is also legal provision for a company to be registered as an off shore company, in order to carry on business outside Sri Lanka. For more information contact the Registrar of Companies, "Samagam Medura", 400 D.R. Wijewardane Mawatha, Colombo 10, Phone: 94-1-689212; Fax: 94-1-689211.

Selling Factors and Techniques

Price is generally the most crucial factor in selling. Most Government purchases are made on the basis of cost. Increasingly, however, the quality of the product and after-sales service is becoming important selling factors in the Sri Lankan market. U.S. products are regarded as high- quality products here. Advertising and participation in sales promotions and other trade events is often helpful for raising consumer awareness and gaining market share, but effectiveness will vary according to product. Appointing an agent/distributor is recommended, to aid in marketing and sales.

Advertising and Trade Promotion

Advertising is becoming increasingly important as new private television and radio stations open and expand operations and programming. There are five radio stations and six TV stations (operating eight channels) as of June 1999; some are run by the state, and others, by the private sector. Newspapers, radio and television all accept commercial advertising. There are several English language newspapers, as well as dailies in Sinhala and Tamil (see below).

Trade exhibitions and fairs are limited. The Ceylon Chamber of Commerce, with support from the private sector, organized a trade exhibition called "CHAMBER 160" to mark its 160 years in existence. The Government sponsors a regular trade event called "Sri Lanka Expo"; this event is scheduled to be held in November 1999 in Colombo. The American Chamber of Commerce in Sri Lanka sponsors an American Trade Fair every one and a half years; the most recent fair was held in February 1999.

Major English-language newspapers:

Daily News and Sunday Observer
Associated Newspapers of Ceylon Ltd.
Tel 94-1-421181 Fax 94-1-449069

The Island and Sunday Island
Upali Newspapers Ltd.
Tel 94-1-324001 Fax 94-1-448103

Mid-week Mirror and Sunday Times
Wijeya Newspapers Ltd.
Tel 94-1-328889 Fax 94-1-449504

The Sunday Leader
Leader Publications (Pvt) Ltd.
Tel 94-1-686047 Fax 94-1-439987

Send queries to the attention of the Advertising Manager.

Major vernacular newspapers include Dinamina, Silumina, Divayina, and Lankadeepa, all in Sinhala; and Thinakaran and Virakesari, in Tamil.

Pricing Products

Price, which is the most crucial buying factor, should be on par with the prevailing market price. A local agent or distributor can provide helpful suggestions and market intelligence to enable companies to make informed pricing decisions. Some firms have successfully offered special, low introductory prices on consumer products to gain a foothold in the market and develop customer awareness and loyalty.

Sales Service/Customer Support

After-sales service and customer support are becoming increasingly important factors in selling in this market. Local companies with comprehensive support services have proved successful over the years. U.S. firms should consider this factor when appointing an agent.

Selling to the Government

Most Government purchases are made by public tenders, which are usually advertised in the local media. Tender procedures are not fully transparent, and delays are common (see Chapters II and VII). Well-informed local agents can be the key to winning these tenders. However, local agents often represent more than one foreign supplier, so that when they encounter difficulties, including possible corruption, they are reluctant to voice concerns, fearing it will jeopardize other business interests.

Protecting Your Product from IPR Infringement

All trademarks designs and patents must be registered with the Registry of Patents and Trademarks. Sri Lanka is a member of the World Trade Organization (WTO) and the World Intellectual Property Organization (WIPO). Sri Lanka has signed a bilateral agreement with the U.S. to protect intellectual property rights and is a signatory to the Paris and Berne Conventions, but enforcement remains a problem. Registered trademarks are valid for 10 years, patents for 15 years, and industrial designs for 5 years. For more detailed information, see Chapter VII.

Need for a Local Attorney

It is always useful to put agreements made with local partners and agents into writing. In the event any disputes or problems arise, it is helpful to have written records for the purpose of supporting a legal case, if necessary.

The Embassy's Consular section maintains a list of attorneys in Sri Lanka, a copy of which may be obtained on request.

The list includes the following commercial law firms:
De Saram, F. H. & G., State Bank of India Building, Second Floor, Mudalige Mawatha, Colombo 1, telephone 94-1-327414-5, fax 94-1-449482 (lawyers for the U.S. Embassy in Colombo); De Silva & Mendis, 18 2/1 Sir Baron Jayathilake Mawatha, Colombo 1, telephone 94-1-327024; and Mather & Ramanathan of 136 Hulftsdorp Street, Colombo 12, telephone 94-1-324455, fax 94-1-332879. (Note: Inclusion on this list should not be construed as an endorsement. Some reputable local law firms have opted not to be included in this list).

Chapter V

LEADING SECTORS FOR U.S. EXPORTS AND INVESTMENT

Best Prospects for Agricultural Products

(a) Wheat
Rank of sector: 1
Name of sector: Wheat
ITA industry code: WT

(in $ millions)	1997	1998	1999
Total Market Size	128	126	138
Local Production	0	0	0
Total Exports	0	0	0
Total Imports	128	126	138
Imports from the U.S.	47	71	70

Note: The above statistics are unofficial estimates.

The Sri Lankan wheat market is very price-sensitive and of late, more quality-sensitive. Sri Lanka has been a consistent market for U.S wheat, mainly due to concessional wheat sales under U.S. Government programs. The Export Enhancement Program (EEP), PL-480 and GSM credit programs have played a major role in developing and maintaining the U.S. market share over the years. With the scaling back of such programs (particularly EEP), U.S. wheat exports dropped from $142 million in 1995 to $80 million in 1996 and decreased further to $47 million in 1997. However, U.S. wheat exports increased to $71 million in 1998. Good harvests together with the lowering of freight rates from the U.S. were contributing factors for U.S. wheat exports to experience this significant increase. The USDA signed an agreement to donate 50,000 MT of wheat to Sri Lanka under the 416(B) program in June of 1999. In 1997, only 32 percent of Sri Lanka's wheat imports originated from the U.S., compared to 57 percent for U.S.-sourced wheat in 1998. Other primary suppliers are Australia and Argentina; wheat from these countries is often available at lower cost, though the quality of Argentinean wheat has not been consistent. Recently the government tender board responsible for appraisal and awarding of wheat tenders has withdrawn Argentina from its list of conventional suppliers. This means that Argentinean suppliers have to conform to additional conditions prior to obtaining approval for wheat shipments to Sri Lanka. In the most recent wheat tender the Australian Wheat Board also bid U.S. wheat, in an unprecedented move. The outlook for the second half of 1999 for U.S. wheat is very promising. The Government's Co-operative Wholesale Establishment (CWE) is responsible for purchasing wheat in Sri Lanka, almost always through competitive tenders. Suppliers have to be registered with the

CWE or the Food Commissioner at the beginning of each year to be qualified to bid for the tenders.

(b) Cotton
Rank of sector: 2
Name of sector: Raw Cotton
ITA industry code: YRN

	1997	1998	1999 (in $ millions)
Total Market Size	31	24	30
Local Production	0	0	0
Total Exports	0	0	0
Total Imports	31	24	30
Imports from the U.S.	3	2	3

Note: The above statistics are unofficial estimates.

This industry is faced with difficulties due to the government allowing duty free textile imports. This tariff barrier was removed in order for the local garment industry to stay competitive in the international market, as there is stiff competition from regional countries. Although Sri Lanka is emphasizing domestic textile production, due to the declining European market and local garment manufacturers obtaining imports at cheaper prices, the industry has recorded little growth. U.S. cotton exports declined to $2 million in 1998. U.S. cotton exports to Sri Lanka had been expected to increase in 1998 due to the United States Department of Agriculture (USDA) authorizing a GSM 102 credit guarantee program for private sector cotton imports to Sri Lanka. However, as the approved local banks were not passing the incentive to local suppliers, this program has not been attractive to local cotton buyers. Tariff elimination for cotton imports has also forced more competition in this sector. Pakistan, South Africa and Hong Kong are America’s major competitors in cotton exports to Sri Lanka.

(c) Fresh Fruits
Rank of sector: 3
Name of sector: Fruit & Nuts
ITA industry code:

	1997	1998	1999 (in $ millions)
Total Market Size	na	na	na
Local Production	na	na	na
Total Exports	na	na	na
Total Imports	25	10	14
Imports from the U.S.	0.5	1.5	3.0

Note: The above statistics are unofficial estimates.

The Sri Lankan market for fruit and nuts has experienced a reduction from $25 in 1997 to $10 in 1998. However, the U.S. market share has increased by almost 100 percent from $0.5 million in 1997 to $1.5 million in 1998. The market is expected to improve in the coming year as imported fruits, especially apples and oranges, have enjoyed a wide acceptance among consumers in Sri Lanka. Although this market has been restricted to the major cities, there is scope for this sector to expand. Australia, Pakistan and India are the other major suppliers of fruits to the local market. Sri Lanka's exports in the food sector consist mainly of fruit, cashewnuts and aquatic invertebrates. The main agricultural exports are tea, coconut and rubber.

Best Prospects for Non-Agricultural Products

(a) Telecommunications Equipment
Rank of sector: 1
Name of sector: Telecommunications equipment
ITA industry code: TEL

	1997	1998	1999
	(in $ millions)		
Total Market Size	70	118	130
Local Production	0	0	0
Total Exports	0	0	0
Total Imports	70	118	130
Imports from the U.S.	10	13	15

Note: The above statistics are unofficial estimates.

The telecommunications sector continued to expand in 1998, and has been one of the fastest growing sectors in the economy. The privatization of the telecommunication industry has had a major impact on the growth of the telecommunication sector. Presently there is an increasing number of sophisticated telecommunication devices and computer based methods of information transfer such as e-mail, Internet and wireless technology that has replaced the traditional products like fixed phones, telegraphs and cables. The re-organization of the Sri Lanka Telecom (SLT) by Nippon Telegraphic & Telephone Corporation, which has a 35 percent stake in SLT, has seen a significant improvement in overall performance. SLT commissioned 143,000 new telephone lines in 1998, an increase of 45 percent over the previous year. The performance of the competing private sector operators also improved in 1998. The number of subscribers of the 4 cellular operators increased by 52 percent. The total number of payphones installed in the country increased by 79 percent to 4,600 at the end of 1998. The two wireless loop operators provided 41,500 new connections during 1998, which resulted in a 158 percent increase in subscribers to 67,000. The SLT is currently implementing a number of projects under the 'Telecommunication

Development Program 1996-2000' at a cost of Rs.11 billion.

(b) Power and Energy
Rank of sector: 2
Name of sector: Electrical Power Systems and Energy Conservation Technology
ITA industry code: ELP

Sri Lanka by its own estimates needs to add an additional 1000 MW of generating capacity between 1999-2005 to meet demand, which is growing at an annual rate of about 10 percent. The Government hopes to utilize concessional foreign funding (from OECF Japan, GTZ Germany) as well as private financing to build these projects. AES Corporation of the U.S. successfully tendered for a 150MW-combined cycle power plant on Build-Own-Operate (BOO) basis, though it is unclear how quickly this project will move ahead. Since the country's hydro power potential is nearly exhausted and is highly vulnerable to poor rainfall, the Government has no option but to develop thermal power plants. There is also potential for wind and solar energy given the desire to cut fuel imports. Both these sectors are open to foreign participation. Substantial opportunities exist for U.S. firms to supply combined-cycle, conventional oil, and coal fired plants. Given excess demand and rising energy prices, there are also opportunities for the sale of conservation technology. (A cautionary note: the GSL regrettably lacks a comprehensive, cooperative framework for project evaluation, approval and implementation by the different agencies involved--as a result, power policy tends to be ad hoc, heavily politicized, and subject to sudden reversals.)

(c) Electrical Machinery
Rank of sector: 3
Name of sector: Electronics and Electrical Machinery
ITA industry code:

	1997	1998	1999
	(in $ millions)		
Total Market Size	350	390	420
Local Production	0	0	0
Total Exports	0	0	0
Total Imports	350	390	420
Imports from the U.S.	35	45	55

Note: The above statistics are unofficial estimates.

In 1998, total electrical machinery and equipment imported to Sri Lanka was $390 million. The U.S. exported $45 million worth of electrical equipment to Sri Lanka. Static converters, inductors and parts continue to offer good potential within this sector for U.S. exporters, who in 1998 were the major supplier, with close to $2 million in sales. The electrical home appliance market is also growing steadily and there is a visible expansion in this sector over the last few years. There are over 30 major distributor/agents for electrical appliances, representing most international brands and over 60 small distributor/agents also competing in the domestic electrical appliance market. Electric heating elements, electric smoothing irons, and vacuum cleaners all offer good potential for U.S. exporters. The growth in the construction sector will also have an impact on the electronics and electronic machinery industry since more scope will be available to supply the construction industry. Competitive pricing will help U.S. exporters carve a fair share of the local market, as U.S. products in the home appliance market are perceived as superior in quality to the Japanese, Taiwan and Korean products which now enjoy major market share in Sri Lanka. The rapid growth of the telecommunications industry has also opened up the market for electrical apparatus for this industry. Switching gear for telephones and telegraphs, electrical apparatus for telephone lines and equipment for carrier signals present the best prospects for electrical suppliers to the telecommunications industry. Imports of boards, panels, consoles and related equipment for the industrial manufacturing sector (for domestic as well as export products) have continued to grow steadily, and offer good prospects to U.S. exporters. The future expansion of this sector will require technological sophistication, which presents technically-advanced U.S. suppliers with good opportunities in the medium/long term. The major suppliers in the electrical machinery and equipment market in Sri Lanka are Japan, U.K., South Korea, Singapore and Taiwan.

(d) Machinery/Mechanical Appliances
Rank of sector: 4
Name of sector: Machinery/Mechanical Appliances
ITA industry code: MAC

	1997	1998	1999
	(in $ millions)		
Total Market Size	545	490	520
Local Production	0	0	0
Total Exports	0	0	0
Total Imports	545	490	520
Imports from the U.S.	18	17	20

Note: The above statistics are unofficial estimates.

This sector recorded a decrease in imports in 1998. However, investment goods imports benefited from lower international prices. The growth in the investment goods category was as high as 20 percent, and was predominantly in garment and textile machinery, data processing machines, telecommunication equipment and construction related imports. This sector was also helped by the waiving of the duty component for plant and machinery for sectors identified as "thrust industries" which include electronics, light engineering, ceramics, rubber-based industries and any manufacturing or service industry of a pioneering nature as determined by the Board of Investment (BOI). U.S. exports in 1998 were $17 million.

The rubber products sector accounted for approximately 5 percent of total industrial exports. This sector recorded an overall growth of around 13 percent and remains a prospective sector for exporters of machinery and equipment related to this industry. Tires and tubes, non-surgical gloves, floor covering and mats, rubber bands and other rubber products are the key areas which performed well in 1998, thus enhancing potential for imports of investment and intermediate products for this sector. Opportunities exist for U.S. suppliers of specialized machinery for processing rubber. New products which have contributed to the expansion of this industry include solid pneumatic tires, footwear and footwear components, rubber apparel and clothing. Dipped and foamed products and extruded molded products already have a solid base in Sri Lanka. The vegetable and fruit processing industry demands slicing, chopping and dicing machines while the bottled food sector requires filling machines and labeling machines. Milk pasteurization and cream separation equipment for the dairy industry and deboning machines and incinerators for the meat industry are the primary prospects for U.S. equipment in the food processing industry. Building material imports have increased 12 percent over the previous year, reflecting growth in the construction industry related to expansion of commercial infrastructure as well as real estate development. The main suppliers for machinery and mechanical appliances are India, Taiwan, Japan and EU countries.

(e) Medical Equipment
Rank of sector: 5
Name of sector: Medical equipment
ITA industry code: MED

	1997	1998	1999
	(in $ millions)		
Total Market Size	24	28	32
Local Production	0	0	0
Total Exports	0	0	0
Total Imports	24	28	32
Imports from the U.S.	5	7	8

Note: The above statistics are unofficial estimates.

Sri Lanka relies completely on imports to fulfill its requirements for medical equipment. The national health care system consists of 550 government hospitals and is responsible for over 80 percent of the health care provided. The total government expenditure in the health sector was Rs.14,419 million in 1998. Capital expenditure on the health sector was Rs.4,330 million. The government has traditionally provided free health care services for immediate and major medical problems, including maternity and geriatrics care, and as a result provides the majority of in-patient services. The government is also actively encouraging the establishment of private hospitals and have provided attractive incentives such as tax concessions for investments, duty free import of medical equipment, provision of free land etc. The decision to establish a hospital in Sri Lanka by the Apollo Hospital Group of India was a significant development in 1998. Currently, the purchase of supplies for the public health system is centralized through the Health Ministry’s Bio-Medical Engineering Service. Only suppliers registered with the Ministry (which invites applications for such registration on an annual basis) can participate in government tenders. Government purchasing decisions tend to be price sensitive. Japan is the single largest supplier to the market.

U.S. exports of medical equipment to Sri Lanka increased by $1 million to $7 million in 1998. Diagnostic equipment, operating theater equipment, intensive care equipment, clinical analyzers and hematology equipment continue to offer the best sales prospects for U.S. firms.

(f) Textile Fabrics
Rank of sector: 5
Name of sector: Textile Fabrics (Knitted & woven)
ITA industry code: TXF

(in $ millions)	1997	1998	1999
Total Market Size	397	461	516
Local Production	17	15	16
Total Exports	NA	NA	NA
Total Imports	380	446	500
Imports from the U.S.	24	18	20

Note: The above statistics are unofficial estimates.

The garment industry is Sri Lanka's most vibrant industry. In 1998, textile and garments exports generated $2.4 billion with approximately $1.3 billion in export sales to the U.S. alone, which is 60 percent of total exports. The U.S. continued to be the major buyer of Sri Lankan textile and apparel exports, the total value of which increased by 8 percent in 1998. Local production of export-quality fabric is limited, and as a result, Sri Lanka currently imports nearly $450 million worth of fabric annually. Recently demand has been strong for yarn, gray cloth and finished cloth, particularly from the EU and Middle Eastern countries. U.S. suppliers account for only about $18 million of exports to Sri Lanka in this sector. Sri

Lankan demand for textile fabrics is often driven by the specifications of foreign garment buyers, so one key to penetrating the market is to make buyers and retailers aware of and interested in specific fabrics and textile products. The elimination of import duties on textiles helped to reduce customs delays and price increases of clothing in the local market, but exposed the local textile industry to import competition. The textile and garment industry also benefited from the incentives offered in 1998, which made all intermediate and capital goods duty free. Hong Kong, South Korea, Taiwan, and India are the major exporters of textile fabric to Sri Lanka.

(g) Paper and Paper Products
Rank of sector: 6
Name of sector: Paper products
ITA industry code: PAP

	1997	1998	1999
	(in $ millions)		
Total Market Size	266	244	270
Local Production	94	79	100
Total Exports	0	0	0
Total Imports	172	165	170
Imports from the U.S.	8	5.5	7

Note: The above statistics are unofficial estimates.

The paper and paper product industry continued its good performance, owing to growing demand for printed materials, labels, exercise books, the increase in circulation of newspapers and the introduction of new magazines. The expansion of other industries increased the demand for labels, corrugated cartons and paper boxes. Most paper products showed an increase in imports. The domestic production of school notebooks increased owing to the improvement of quality as well as being lower priced than imported books. The shortage of timber supply in Sri Lanka provides good opportunities for U.S. paper product suppliers to gain entry into the local market. Imports in 1998 were $165 million. Local production of paper and pulp is limited. More than 90 percent of Sri Lanka’s current requirement is imported. The U.S. share of this market is about 5 percent, with considerable potential for expansion. In spite of the existence of government-owned paper mills, Sri Lanka relies heavily on imports to fulfill the requirements of the paper and paperboard industry. Writing and printing paper, news print paper, KRFT liner board and cartons, boxes and wrapping/packing paper are some of the items which were imported on a large scale in 1997. Domestically-produced paper products such as exercise books, labels, computer paper and related items, which have enjoyed a major share of the market, face increasing competition from imports at very competitive prices. In addition, importers believe there is much scope for investment in the paper converting industry in Sri Lanka. There are a few newlyestablished companies manufacturing value added products such as corrugated cartons and packing materials, but this production is not sufficient to meet demand. EU countries were the main suppliers of paper and paper products to Sri Lanka.

(h) Aircraft/Aircraft parts
Rank of sector: 7
Name of sector: Aircraft/Aircraft Parts
ITA industry code: AIR

	1997	1998	1999
	(in $ millions)		
Total Market Size	13	15	18
Local Production	0	0	0
Total Exports	0	0	0
Total Imports	13	15	18
Imports from the U.S.	3	3	4

Note: The above statistics are unofficial estimates. The above figures do not account for military purchases.

Aircraft will be one of the sectors that will provide a substantial market for exports to Sri Lanka. Due to the north-east conflict the military will routinely purchase aircraft including ground support fighter aircraft, transport planes and troop support helicopters. Purchasing decisions are often price sensitive, and U.S. aircraft tend to be costly; therefore, the best prospects for U.S. suppliers in this sector are likely to be for used aircraft. The key to ascertaining the needs of the military is to have in-country representation or to establish frequent contact with the military. The national carrier, Air Lanka, uses exclusively Airbus aircraft.

Two local companies provide charter operations in-country to the military as well as civilians using leased aircraft from Russia and Belgium. Another local firm is planning to start up cargo flights, and also is arranging to purchase used aircraft. These charter/cargo companies offer small-scale but viable opportunities for U.S. firms selling aircraft and parts, as well as leasing aircraft to Sri Lanka.

(i) Textile Machinery
Rank of sector: 8
Name of sector: Textile Machinery
ITA industry code: TXM

	1997	1998	1999
		(in $ millions)	
Total Market Size	55	31	30
Local Production	0	0	0
Total Exports	0	0	0
Total Imports	55	31	30

Imports from the U.S.	1	1.2	1.5

Note: The above statistics are unofficial estimates.

The Sri Lankan garment industry accounts for over 45% of industrial production and therefore plays a major role in the country's economy. The increasingly competitive global market environment will push Sri Lankan garment manufacturers to try to source more fabric locally, for cost considerations as well as to minimize lead-time for production. However, with duties being abolished for imported fabric, local manufacturers are sourcing fabric from overseas due to lower costs and reduced lead-time. This has adversely affected the local textile industry and unless measures are taken to rejuvenate the industry, it will decline further. Already, two major textile mills have suspended operations and are facing an uncertain future.

At present import levels, computer assisted pattern design and cutting and sewing equipment and technology present good opportunities for U.S. suppliers, as superior technology gives the U.S. a competitive advantage over other cheaper but inferior quality products from Taiwan, Korea and India. Total U.S. exports of textile machinery remained at the $1.2 million level in 1998.

(j) Pollution Control Equipment
Rank of sector: 10
Name of Sector: Pollution Control Technology
ITA Industry Code: POL

Statistics/estimates not available

The importance of the environment and long-term effects of industrialization have been increasingly recognized in project implementation and formulation of policy in Sri Lanka. Sri Lanka has been able to establish a relatively strong legal framework to protect the environment. A major step towards reducing pollution of the environment is a law which requires all new industries to obtain a Central Environment Authority (CEA) license prior to commencing operations. This ensures that proper pollution control systems are in place prior to commencing production. Existing industries have been given a specific period to install pollution control systems. Currently, serious environmental problems exist in the areas of municipal solid waste disposal, urban air pollution, deforestation and water pollution, which require urgent attention. These are areas that provide potential for U.S. environment companies to offer products and services. There is also a good market in Sri Lanka to install and commission pollution prevention and control technology for manufacturing facilities. Many Sri Lankan companies in the environment technology business are interested in U.S. products and technology. In addition, U.S. companies should be competitive bidders for solid waste removal and disposal contracts tendered by the Government. The USAID-funded United States-Asia Environmental Partnership (US-AEP) program office in Colombo is actively promoting U.S. environmental products and services here.

Chapter VI

TRADE REGULATIONS AND STANDARDS

Tariff and Non-Tariff Barriers

Sri Lanka has a five-band import tariff schedule based on the Harmonized System of Classification. The five bands are zero, 5, 10, 30 and 35 percent. Agricultural products are at 35 percent. Most consumer goods, chemicals and other intermediate goods manufactured locally are subject to a 30-percent tariff. Parts and components used in local industry are subject to a 10-percent tariff. Ready-made garments are also subjected to a 10-percent tariff. With a few exceptions, raw materials and machinery and equipment are subject to a 5-percent tariff. All imports of textile materials, yarn, and all related intermediate and capital goods required for the garment export industry are free of import duty. In addition, imports of gold, gems, computers and related equipment, software, telecommunications equipment, sports equipment, medical and dental equipment, agricultural seeds and a range of machinery and equipment needed for agriculture and fisheries industry are also duty-free.

Motor cars are subject to a 30 percent import tariff. Diesel cars are suject to a further 60 percent excise duty. Vehicle imports for most export-oriented industries either qualify for duty-free entry or are entitled to duty rebates. Tobacco, cigarettes and liquor do not come under the five-band rate structure. Sri Lanka has bound most agricultural tariffs and a few other non-agricultural tariffs at 50 percent under the World Trade Organization (WTO). Although most items are already subject to duties below the bound rates, the GSL has not honored its WTO commitments on liquor and cigarettes, which remain subject to excessively high duties. As a result, the cigarette market remains effectively closed to significant import competition.

Other taxes include a 5.5 percent national security levy (0.5 percent for machinery and equipment), a 12.5 percent Goods and Services Tax (GST) which is a value-added tax and an excise tax on cigarettes, liquor, petrol, motor vehicles. All taxes are also charged on locally manufactured goods.

Goods and Services Tax

A value-added tax called the "Goods and Services Tax" (GST) with an input tax credit mechanism was implemented in Sri Lanka on April 1, 1998. The GST is applicable on most goods and services imported, produced or sold locally. The GST replaced a turnover tax system, which granted a wide range of exemptions, and had cascading effects as it was charged on each point of sale with no input tax credit mechanism. The turnover tax system was a three-band tax system with rates of 7, 12 and 18 percent. The GST has two rates: a standard 12.5% for most goods and services and a zero rate for a limited number of goods and services. A range of essential goods such as certain food items and petroleum products, public transport services and health care are completely exempt from GST. Goods and services supplied to diplomatic missions have been granted GST exemptions only on a case-by-case, negotiated basis.

Importers and distributors, manufacturers and service centers are liable for GST. All exports from Sri Lanka, and passenger and cargo airline services and shipping services are zero-rated. No GST is payable on zero-rated goods and services but suppliers of zero-rated products may be able to recover GST paid on inputs used. Suppliers of GST-exempted goods cannot recover any of the GST applied on their own expenses. Suppliers of standard rate goods and services have to charge GST on sales to customers, who in turn will be able to deduct the amount of tax from the amount they collect and owe to the government, if such supplies are used in their businesses. Customers who consume goods and services for non-business purposes cannot claim the deduction. GST is not due on raw material imports to businesses located within free trade zones.

When goods are imported to Sri Lanka, GST is payable at the same rate as on a supply of those goods in Sri Lanka. GST must be paid at the point of import. Exporters (who were exempted from turnover tax on imports and exports) are required to pay GST on inputs (both imported and locally obtained) but are eligible to receive a refund. In the case of imported inputs, GST must be paid within 60 days of import. GST refunds are granted only after exporters submit proof that the goods made from the inputs were exported, and processing time is at least one month. Exporters, complaining that this system creates cash flow problems and is cumbersome and time consuming, have requested exemptions from paying GST on inputs.

Implementation of the new system has generated controversy. Numerous reports of fraud and abuse have circulated in the local media, such as the charging of GST on exempted food items, and double-charging of GST to unsuspecting and confused consumers. In response, the Inland Revenue Department has started a consumer awareness program to educate consumers about GST. Various suppliers of goods and services who enjoyed exemptions under the turnover tax system have condemned the GST’s comprehensiveness and are making efforts to have exemptions reinstated or to receive a zero-rating for their products.

The GST is the most important tax source for the government. However, the current 12.5 percent GST rate is well below the revenue neutral tax rate of around 17 percent, which is a major cause for concern. GST collections fell below targets in 1998.

Customs Valuations

Most import duty rates are ad valorem, calculated on the CIF value. Goods and Services Tax on imports is also calculated on the CIF value plus import duty. The national security levy on imports is determined after the CIF value, plus import duties, have been marked up by an additional 25 percent to reflect the approximate market price. Given the high effective level of taxation on many imported goods, smuggling is, not surprisingly, a serious problem for products such as photographic film and cigarettes.

If an item is sent abroad for repair, at the time it is "exported" the shipper should submit a reimportation form to the Customs Department to enable the repaired item to be reimported free of duty. However, if the cost of repair exceeds 50 percent of the item's value, an import duty will be charged.

Import Licenses and Import Controls

Over the years the Government has liberalized most license controls. Import licensing on potatoes, onions, and chilies was removed in July 1996. Imports of wheat, a major food commodity import, are controlled by the state-owned Cooperative Wholesale Establishment, better known as CWE. Only a few other items remain under license control, mostly for health and national security reasons. The import of drugs is subject to the approval of the Drugs and Cosmetic Devices Committee of the Ministry of Health. Similarly, the import of firearms and ammunition for use by the armed forces and police, as well as for civil security, is controlled by the Ministry of Defense. There are additional restrictions on the import of toxic and hazardous chemicals and pesticides. In 1996, used and reconditioned air conditioners and refrigerators came under license control for environmental protection. Remote-controlled toys are under license control for public security reasons.

Export Controls

There are no export controls other than on the following four categories of exports: coral chunk and shells; wood and articles of wood; ivory; and over 50 year-old antiques, including antique motor vehicles. These exports are controlled for reasons of environmental protection and the preservation of antiquities.

Import/Export Documentation

International trade can be conducted on letters of credit (LC), Documents against Payment (DP) or Documents against Acceptance (DA) terms or Advance Payment terms. Goods can also be imported to Sri Lanka on a consignment account basis, where the goods imported are books and periodicals or ornamental fish imported for re-export. LCs are valid for up to 180 days. Under DA terms, the supplier is expected to give credit for a maximum of ninety days. Trade on Advance Payment terms is allowed where the total value of the goods does not exceed $7,500. Payments for imports made on Advance Payment basis can be made through either bank draft, mail transfer or telegraphic transfer.

Import/export documentation required by commercial banks for imports includes an invoice, insurance certificate and bill of lading/airway bill. Depending on the product and the mode of payment, certificates such as certificates of origin, inspection certificates and packing lists may also be required. Shipments by air cargo require the same documentation as those arriving by sea. All shipping documents in relation to imports made on LC, DP or DA terms should be forwarded by supplier's bank or by the supplier to a commercial bank in Sri Lanka for release to the importer of goods. In the event the original documents are not received on time, the importer at the discretion of the bank, may submit copies of those documents for certification by the bank for clearance of the goods and the importer should arrange the original shipping documents to be received by the bank concerned within 30 days from the date of certification of the copies.

To clear goods from customs, the importer should submit relevant shipping documents certified by a commercial bank and customs declaration forms to the Sri Lanka Department of Customs. In the case of an import made on Advance Payment basis, goods will be released on submission of satisfactory proof of payment such as bank memos. Goods for which advance payment has been made should be received by the importer within 30 days of effecting the remittance. In the case of an import made on consignment account basis, goods will be released by customs on the submission of clearance documents and the importer should make arrangements for remittances to be made within 60 days of clearing goods.

Temporary Entry

Temporary entry for exhibition material is allowed under the Carnet system of the International Chamber of Commerce. The exporter should ensure that required documents under the Carnet system are certified in the country of origin of the material. These documents should be presented at the time the goods are clearing Customs. Goods brought into the country under the Carnet system must be re-exported within six months. For additional information, contact the approving authority:

Director of Customs, Times Building, Colombo 1, telephone 94-1-421141~9, fax 94-1-446364. Any products subject to import controls (as described above) also require approval from the relevant GSL authority.

Labeling and Marking Requirements

All labeling of packages should be in large bold lettering in indelible ink or paint. For container cargo, the weight, center of gravity, and sling or grab points may be marked to encourage careful handling. Goods shipped to Sri Lanka should be well-packed in order to withstand heat, humidity, rough handling and pilferage. Shipping marks should show consignee order number and port of entry.

Prohibited Imports

Imports of illegal drugs are prohibited.

Standards

The Sri Lanka Standards Institute (SLSI) sets product standards. There are over 1200 standards relating to manufactured products, agricultural commodities, industrial raw materials, and production processes, however, only a few of them are mandatory. Sri Lanka has already adopted ISO 9000 series standards (ISO 9000 to ISO 9004) on quality management and assurance and ISO 10011 standards on quality management audits. SLSI has certified 30 companies so far, and foreign standard institutions, including the British Standard Institution, have certified approximately 20 other companies. The SLSI is currently studying the feasibility of introducing the ISO 14000 series on environmental management systems.

Free Trade Zones/Warehouses

Sri Lanka has six free trade zones, also called export processing or investment promotion zones, which are administered by the BOI. The oldest of them, the Katunayake and Biyagama zones, located north of Colombo near the Bandaranaike International Airport, are fully occupied; in fact, labor shortages have been reported by some companies located in these zones. The third zone is located at Koggala on the southern coast, and another is in Pallekelle, near Kandy, in central Sri Lanka. The BOI is hoping to develop non-polluting high technology investments in the Pallekelle location, which at present has only two tenants. Two new export processing zones were opened in 1997. They are located north-east of Colombo, in Mirigama and Malwatte. There are over 175 foreign export processing enterprises operating in the six zones. An industrial zone, funded by the Overseas Economic Cooperation Fund of Japan, was opened in March 1999 at Seethavaka, in Avissawela about 60 kilometers from Colombo. This zone is owned by the Sri Lankan Ministry of Industrial

Development and managed by the BOI. In addition, several other industrial estates are being developed. The BOI offers site selection assistance to investors considering locations outside of the zones. However, the BOI now actively encourages the setting up of export-oriented factories in the zones, due to the ease of providing infrastructure, security, as well as monitoring by the BOI.

The Sri Lanka Ports Authority (SLPA) operates a bonded warehouse at the port of Colombo for transit shipments. Importers can either use SLPA’s bonded warehouse or establish their own bonded warehouse outside the port. SLPA’s warehouse can be used for a maximum period of six months. For further information about the SLPA’s warehouse facility contact the Commercial Manager of SLPA at: Commissariat Street, Colombo 1, telephone and fax 94-1-431648. The licensing authority for establishing a company-owned warehouse is the Director of Customs, Times Building, Colombo 1, telephone: 94-1-421141-49 fax: 94-1-446364.

Membership in Free Trade Arrangements

Sri Lanka is a member of the South Asian Preferential Trading Arrangement (SAPTA), a trading arrangement between seven South Asian nations belonging to the South Asian Association for Regional Cooperation (SAARC). The objective of the organization is to expand into a free trade area. However, work even on the exchange of preferential tariff rates among the member countries is progressing at an extremely slow pace.

Customs Contact Information

Sri Lanka Customs Department
S.M.J. Senaratne, Director General
Custom House, Times Building
Bristol Street, Colombo 1
Phone: 94-1-436354
Fax: 94-1-446364

CHAPTER VII

INVESTMENT CLIMATE

Openness to Foreign Investment

Sri Lanka actively welcomes foreign investment, which has become an important element of the country's economic growth. Sri Lanka opened its economy to foreign investment in 1978 long before its South Asian neighbors but results have been mixed. Over the past twenty years, several hundred foreign investors have invested in the country but foreign investment flows have been weak in the past few years due to economic and political problems. Although many investors have done well some have had problems with government practices and regulations.

The Board of Investment (BOI), an autonomous statutory agency operating directly under the president, is the primary government authority responsible for foreign investment. The BOI acts as a facilitator for investment and is structured to provide "one-stop" service for foreign investors, including approval of projects, granting licenses, establishing tax incentives, and assisting in procurement.

The principal law affecting foreign investment is Law No. 4 of 1978 (known as the BOI act) and amendments made in 1980, 1983 and 1992, and implementing regulations established under the act. The BOI act provides for two types of investment approvals. Under section 17 of the act, the BOI is empowered to grant concessions (see details below) to companies satisfying certain eligibility criteria; a qualifying investor enters into an agreement with the BOI which modifies, exempts, and waives applicable laws, including inland revenue, customs, exchange control and import control statutes. Investment approval under section 16 of the act permits entry for foreign investment to operate under the "normal" laws of the country, and is applicable to investments which do not satisfy eligibility criteria for BOI incentives.

Other laws affecting foreign investment are the Securities and Exchange Commission Act, No. 36 of 1987 and the Takeovers and Mergers Code of 1995. In addition, various labor laws and regulations affect investors. See sections below.

The BOI gives priority to the following sectors: infrastructure; electronics and new technologies; light engineering; tourism; agriculture, dairy and livestock projects; mining and processing of non-renewable resources; computer software; rubber products; gems and jewelry; textiles, garments and accessories; and, services such as healthcare and shipping-related activities. The Bureau for

Infrastructure Investment (BII), a division of BOI, coordinates all private infrastructure projects.

Foreign equity participation of up to 100 percent is allowed in many sectors of the economy, and the BOI gives automatic approval for most foreign investments. Investment in certain restricted sectors is subject to screening and approval on a case-by-case basis where foreign equity exceeds 40 percent. The restricted sectors include: shipping and travel agencies; freight forwarding; professional services; education; mass transportation; telecommunications; supply of water; mining; deep sea fishing; timber-based industries; growing and primary processing of tea, rubber, coconut, rice, cocoa, sugar and spices; and, finally, the production for export of goods subject to international quota.

In addition, the activities of several industries, particularly services, are regulated and subject to approval by other government agencies. In some cases, limits on foreign equity participation apply. The regulated activities include banking, investment banking, stockbroking and finance; air transportation; coastal shipping; energy and power; lotteries; large-scale, mechanized gem mining; "sensitive" industries such as military hardware, dangerous drugs and currency; and, the establishment of local branches of foreign companies. The screening mechanism is non-discriminatory, and for the most part routine.

Foreign investment is not permitted in the following businesses: non-bank money lending (1998 budget recommendations to open this sector to foreign investment have not been implemented, as of mid-1999); pawnbroking; retail trade with a capital investment of less than $1 million (with one notable exception: the BOI permits retail and wholesale trading by reputed international brand names and franchises with an initial investment of not less than US$ 150,000); personal services other than for the export or tourism sectors; and coastal fishing.

In general, the treatment given to foreign investors is non-discriminatory. In fact, some local companies have complained that they are discriminated against, while qualifying foreign investors can benefit from a wide range of advantages. However, even with incentives and BOI facilitation, foreign investors from time to time face certain difficulties in operating here. Problems range from the mundane but critical matter of getting phone connections to clearing equipment and supplies through customs speedily, as well as transport of finished export products from out-station factories (internal flights are prohibited by security constraints and road transport is slow, extremely bumpy, and often hazardous.)

Government treatment of foreign investors with respect to privatization has been non-discriminatory. However, labor unions are often opposed to privatization and seem particularly averse to foreign owners, which has made the purchase of certain entities problematic for new foreign owners.

Conversion and Transfer Policies

Sri Lanka has no exchange controls on current account transactions. There are no barriers, legal or otherwise, to the expeditious remitting of corporate profits and dividends for foreign enterprises doing business in Sri Lanka. Remittances of business fees (management fees, royalties, and licensing fees) are also freely permitted as well as funds for debt service and capital gains. In addition, all stock market investments can be remitted without prior approval of the Central Bank. Investment returns can be remitted in any convertible currency at the legal market rate. Controls on capital account (investment) transactions prohibit foreigners from investing in debt and fixed income securities.

Expropriation and Compensation

Since economic liberalization policies began in 1978, the Sri Lankan Government has never been legally found to have expropriated a foreign investment. Investors have the right to arbitration under the international center for the settlement of investment disputes. A longstanding dispute involving an alleged expropriation of a U.S. company's investment was satisfactorily resolved during 1998 through negotiations involving the company, the Sri Lankan Foreign Ministry, and the U.S. Embassy.

Dispute Settlement

Foreign investments are guaranteed protection by the constitution of Sri Lanka. The Government has entered into 24 investment protection agreements with foreign governments (including the United States) and is a founding member of the Multilateral Investment Guarantee Agency (MIGA) of the World Bank. Sri Lanka is also a charter member of the World Trade Organization. The Government has ratified the provisions of the convention on settlement of investment disputes, which provides the mechanism and facilities for international arbitration through the International Center for the Settlement of Investment Disputes of the World Bank (ICSIA). A center for arbitration has been established in Colombo, for the expeditious, economical, and private settlement of commercial disputes. The center is affiliated with the arbitration institute of the Stockholm Chamber of Commerce, and follows the institute’s standards.

The U.S.-Sri Lanka Bilateral Investment Treaty (BIT) was ratified by both governments in early 1993. A bilateral treaty on avoidance of double taxation is currently under consideration and review.

Although there are legal alternatives for dispute settlement, aggrieved investors (especially those dealing with the Government of Sri Lanka on projects) have frequently pursued out-of-court settlements, which offer the possibility -- not frequently realized -- of speedier resolution of disputes.

The Labor Department has the infrastructure for settling industrial disputes with labor, and compulsory arbitration is available when attempts to conciliate industrial disputes fail. The Labor Commissioner typically becomes involved in labor-management mediation. The Labor Minister and even the president have intervened in particularly difficult cases.

Sri Lankan commercial law is almost entirely statutory. The law was codified before independence in 1948 and reflects the letter and spirit of British Law of that era. It has, by and large, been amended to keep pace with subsequent legal changes in the U.K. the court system is largely free from government interference. Procedures exist for enforcing foreign judgments. Several important legislative enactments regulate commercial matters: the Board of Investment Law, the Code of Intellectual Property Law, the Companies Act, the Securities Council Act, the Banking Act and the Industrial Promotion Act. The Companies Act and the Insolvency Ordinance provide for the winding up of insolvent companies. Litigation can be very time consuming, but legislation passed in 1995 provides for judicial enforcement of arbitral awards.

Performance Requirements/Incentives

Foreign investment is encouraged in enterprises which involve extensive use of foreign capital or sophisticated technology, in export-oriented manufacturing, and in large-scale infrastructure projects. Foreign investors are generally not expected to reduce their equity over time or to transfer technology within a specified period of time, except for build-own-transfer or other projects in which such terms are clearly specified.

The Board of Investment specifies certain minimum investment amounts for both local and foreign investors to qualify for incentives, which vary according to sector. Incentives for some projects are offered on a sliding scale, depending on the amount of investment. Firms enjoying preferential incentives in the manufacturing sector in most cases are required to export 90 percent of production, while those in the service sector must export at least 70 percent of production. Investors also are expected to perform according to a mutually agreed-upon program.

Maintaining a certain level of employment is a condition in some BOI-approved enterprises. In addition, privatization agreements as a rule prohibit new owners from laying off workers, although the owners are free to offer voluntary retirement packages to reduce their workforce. Some foreign investors have received political pressure to hire workers from a particular constituency or a given list, but have successfully resisted such pressure with no apparent adverse effects.

Foreign employees usually receive preferential tax treatment, and do not experience any significant problems in obtaining work or residence permits, particularly when they are affiliated with BOI-approved ventures. For example, foreign investors who make an equity investment of us$50,000 can qualify for a resident visa. Employment of foreign personnel is permitted when there is a demonstrated shortage of qualified local labor. Technical and managerial personnel are in short supply, and this shortage is likely to continue in the near future.

The Board of Investment is empowered to offer special incentives as follows:

-- a tax holiday of ten to twenty years for investments in "thrust" industries (i.e. electronics, light engineering, ceramics and glass ware, rubber products, and any industry or service of pioneering nature as defined by the BOI.) A preferential tax of 15 percent for a period of five to ten years follows the tax holiday. (minimum investment is Rs 50 million or approximately US$715,000).

-- a tax holiday of five years for textile and ancillary products required for the garment export industry with a minimum investment of Rs 5 million. A preferential tax of 15 percent follows the tax holiday. To qualify a minimum of 50 percent of output should be exported or supplied to garment export industry.

-- a tax holiday of eight years for software exporting industry. A preferential tax of 15 percent for a period of twelve years follows the tax holiday. At least 70 percent of production should be exported.

-- a tax holiday of five years for software companies catering to the domestic market.

-- a tax holiday of ten years for agriculture, dairy and livestock development. A preferential tax of 15 percent for a period of ten years follows the tax holiday. (minimum investment is Rs 10 million, or approximately $ 143,000, excluding land).

-- a tax holiday of five years for companies utilizing advanced (new) technology, with a minimum investment of Rs 4 million (approximately $ 57,000).

-- a preferential tax of 15 percent per annum for a period of 20 years for direct and indirect export of non-traditional manufactured goods (minimum investment Rs 12.5 million, or approximately $ 179,000) and direct and indirect export of services (no minimum).

-- a preferential tax of 15 percent for a period of fifteen years for the construction and operation of hotels and recreation facilities (minimum investment of Rs 10 million, approximately $ 143,000).

-- a tax holiday of seven years for low cost housing projects with a minimum of 100 units (minimum investment of Rs 50 million, approximately $ 714,000).

-- a tax holiday of ten years to twenty years for investments of Rs 500 million ($ 7.1 million) or more in a new enterprise undertaking large-scale projects. A preferential tax of 15 percent for a period of five years to ten years for export-oriented industries follows the tax holiday.

-- a tax holiday of twenty years for manufacturing or trading of gems, diamonds and jewelry with a minimum investment of Rs 5 million (approximately $ 71,000). Minimum export requirement is 70 percent.

-- a tax holiday of five to eight years for companies expanding, relocating or setting up new enterprises in designated zones by December 31, 1999.

-- a tax holiday of five years for regional operating headquarters.

-- a tax holiday of ten years for hospitals. Minimum investment for hospitals located in Colombo is Rs 75 million (approximately $ 1.1 million) and outside Colombo is Rs 25 million (approximately $ 357,000).

-- a preferential tax of 15 percent for ten years for training institutes.

-- a preferential tax of 15 percent for seven to ten years for small scale infrastructure projects. (minimum investment is Rs 50 million, or approximately $ 714,000 for power projects; Rs 125 million, or approximately $ 1.8 million for others)

Other incentives for the above projects include:

-- duty-free imports (generally, during the life of the project for export-oriented projects, and during the project implementation period for others);
-- 15 percent income tax on emoluments of expatriate employees during the first three years;
-- no restriction on repatriation of dividends or profits;
-- free transferability of shares.

For further information on investment incentives and other investment-related issues, potential investors are encouraged to contact the board of investment directly. The BOI can be found on the internet at http://www.boisrilanka.org, or reached via e-mail at info@boisrilanka.org.

Right to Private Ownership and Establishment

Private entities are free to establish, acquire and dispose of interests in business enterprises. Private enterprises enjoy benefits similar to those granted to public enterprises, and there are no known limitations in access to markets, credit or licenses. Foreign ownership is allowed in most sectors. However, private land ownership is limited to twenty hectares per person. About 80 percent of the land in Sri Lanka is owned by the Government, including most tea, rubber and coconut plantations. In the past three and a half years, the Government divested most of these plantations to the private sector on 50 year lease terms as part of ongoing privatization efforts. Although state land for industrial use is usually allotted on a 50-year lease, 99-year leases may also be approved on a case-by-case basis depending on the nature of the project.

Foreign investors can purchase land from private sellers, but non-nationals of Sri Lanka may be liable for a 100 percent tax payment on land purchases. If the foreign purchaser has incorporated a company in Sri Lanka under the companies act and buys the land in the name of the company, the tax payment is not required.

Protection of Property Rights

Secured interests in property are recognized and enforced. A fairly reliable registration system exists for recording property such as land, buildings, and mortgages. The legal system is nondiscriminatory and protects and facilitates acquisition and disposition of property rights by foreigners.

Intellectual property is protected through the Intellectual Property Act of 1979 which governs copyrights, industrial designs, patents, trademarks, trade names and unfair competition. All trademarks, designs, and patents must be registered with the Government's registry of patents and trademarks.

Infringement of Intellectual Property Rights (IPR) is a punishable offense under the law. Intellectual Property Rights come under both criminal and civil jurisdiction. Relief available to owners includes injunctive relief, seizure and destruction of infringing goods, and prohibition of importation. However, enforcement is a crucial problem, as is public awareness of IPR. Domestic implementing legislation is very weak and the prevailing attitude of the Government is that it cannot act as an enforcer of IPR laws. At present, aggrieved parties must on their own seek redress of any IPR violation through the courts, which can be a frustrating and time-consuming process. Although the legal system is well-established and non-discriminatory, it is fraught with long delays. Necessary amendments to Sri Lankan IPR law are being formulated but have not yet been enacted. It will likely take years before new laws, procedures, and court precedents are established.

Sri Lanka is a party to major Intellectual Property Agreements including the Berne Convention for the protection of literary and artistic works, the Paris Convention for the protection of industrial property, the Madrid Agreement for the repression of false or deceptive indication of source on goods, the Nairobi Treaty, the Patent Co-operation Treaty, the Universal Copyright Convention and the Convention establishing the World Intellectual Property Organization (WIPO). Sri Lanka’s intellectual property law is based on the WIPO model law for developing countries. Sri Lanka and the U.S. in 1991 signed a Bilateral Agreement for the Protection of Intellectual Property Rights, but the Government of Sri Lanka has yet to enact the required implementing legislation. Sri Lanka is also a party to the Trade Related Intellectual Property (TRIPS) Agreement in the World Trade Organization, and the Government of Sri Lanka takes the view that as a developing country, it has until 2000 to change its laws to comply with WTO requirements. Legislation that would satisfy both bilateral and WTO requirements has been drafted, and passage by the Sri Lankan Parliament is expected before the end of 1999.

Patents are granted for inventions, with the following exceptions: discoveries, scientific theories and mathematical methods, plant or animal varieties or essentially biological processes for the production of plants and animals, other than microbiological processes and the products of such processes, business rules and methods, methods of treatment by surgery or therapy, and diagnostic methods practiced on the human or animal body. A patent is valid for fifteen years from the date of grant, but must be renewed annually.

Copyrights are not registered. A work is protected automatically by operation of law. Original literary, artistic, and scientific works are protected. Computer software is not specifically listed as a protected item under

Sri Lankan IPR Law, but receives de facto protection under international conventions which extend the definition of literary works to cover software as well. The enforcement limitations described above apply to copyrights, including software.

Sri Lanka recognizes both trademarks and service marks. The exclusive right to a mark is acquired by registration. A mark may consist of words, slogans, designs etc. Protection also is available to well known marks not registered in Sri Lanka. Registered trademarks are valid for ten years.

Trade secrets are not protected under the current law, but we understand the Government of Sri Lanka has included trade secret protects in its new IPR Law.

Transparency of the Regulatory System

The BOI strives to inform potential investors about laws and regulations, which may affect operations in Sri Lanka. Laws pertaining to tax, labor and labor standards, exchange controls, customs, environmental norms, building and construction standards are in place. However, some of the laws and regulations are not freely available and difficult to access. Foreign and domestic investors often complain that the regulatory system allows far too much leeway for bureaucratic discretion. Effective enforcement mechanisms are sometimes lacking and coordination problems between the BOI and relevant line agencies frequently emerge. Lethargy and indifference on the part of mid- and lower-level public servants compound transparency problems.

Although many foreign investors, including U.S. firms, have had positive experiences in Sri Lanka, some have encountered specific problems with government practices and regulations. For example, one foreign company that had obtained a waiver of a particular requirement in order to obtain a license was later told it must meet the requirement to continue to be qualified for the license, with no advance warning and little justification. Other multinational firms have experienced extensive unexplained delays in trying to reach agreement on investment projects.

Efficient Capital Markets and Portfolio Investment

Commercial banks and two development finance institutions, the National Development Bank (NDB) and the Development Finance Corporation of Ceylon (DFCC) Bank, are the principal source of finance. Bank loans are the most widely used credit instrument for the private sector. In recent years, a few companies have turned to the share market to raise capital. However, due to depressed stock market conditions, capital raised in the primary market fell sharply in 1997 and 1998.

A few leading companies have recently started to raise capital through other credit instruments such as corporate bonds and commercial paper. Efforts are underway to develop a listed market for corporate debt of both publicly listed companies and companies not listed on the stock exchange. Presently, only publicly listed companies are permitted to issue quoted debt securities, and not many have made use of this facility. At present, there are sixteen debt listings on the Colombo Stock Exchange (CSE), and applications for four more listings are currently pending. Duff and Phelps is planning to open a credit rating office in Colombo in the third quarter of 1999. The lack of a credit rating agency has been a major impediment for the development of a listed corporate debt securities market.

There is an active and relatively competent accounting profession, based on the British model. The source of accounting standards is the Institute of Chartered Accountants of Sri Lanka (ICASL) and standards are constantly updated to reflect current international accounting and audit standards. Due to a lack of an adequate enforcement mechanism, however, problems with the quality and reliability of financial statements exist. Until early 1999, accounting standards were not mandated by law, other than for publicly quoted companies, financial institutions and insurance companies. For other companies, the Companies Act no. 17 of 1982 describes the accounting requirements to be followed in general, and the form and contents of the books of accounts that they must maintain. To overcome these shortcomings, Sri Lanka carried out a major revision of accounting and auditing standards in September 1997. The revised accounting/auditing standards ensure compliance in all material respects with the international standards adopted by the international federation of accountants. Regulations passed in December 1998 require most large- and medium-sized companies in Sri Lanka to follow the revised standards with effect from January 1, 1999. Accounts of such business enterprises require to be audited by professionally qualified auditors holding ICASL membership. An accounting and auditing monitoring board has powers for the enforcement of accounting standards.

The Securities and Exchange Commission (SEC) regulates the securities market in Sri Lanka. Foreign investors can freely purchase up to 100 percent of equity in Sri Lankan companies in numerous permitted sectors. In order to facilitate portfolio investments, country funds and regional funds are also allowed to invest in Sri Lanka's stock market; such funds must first receive Ministry of Finance approval to operate in Sri Lanka. These funds make transactions through share investment external rupee accounts maintained in commercial banks.

The Colombo Stock Exchange, while small by "big emerging market" standards, is one of the most efficient in the region.

The CSE is fully automated, with automated trading and clearing and settlement systems. The CSE has a rolling settlement period of five days for buyers and six days for sellers. Fifteen local and foreign joint venture brokers currently operate at the CSE. In order to improve confidence in the settlement of market transactions, the sec inaugurated a settlement guarantee fund with an initial capital of Rs 100 million in May 1998. The primary purpose of the fund will be to guarantee the settlement of trades between clearing members of the exchange. In 1998, the Colombo stock market was adversely affected by the pull out of foreign investors from the region after the nuclear tests in India and Pakistan. In addition, the Japanese economic crises and recession in East Asian countries, Russian financial crisis, lack of positive news from the domestic economic/political front, and corporate bond issues at attractive interest rates also kept investors away from the market. Consequently, the CSE’s all share price index shed 105 points (15 percent) and the sensitive price index lost 145 points (14 percent) in 1998. Foreign activity resulted in a net outflow of $ 23 million during the year compared with a net inflow of $ 12 million in 1997. The stock market has remained extremely sluggish during the first half of 1999. The indices have dropped approximately 15 percent during this period. Foreign investors have remained net sellers in the first half of 1999.

Sri Lanka has a fairly well diversified banking system. Total assets of the commercial banks stood at Rs 501 billion as of December 31, 1998. The largest are two state-owned commercial banks, Bank of Ceylon and Peoples Bank, with assets amounting to Rs 151 billion and Rs 116 billion respectively in 1997. The World Bank and IMF have identified the dominance of these inefficient state owned banks as a main constraint for development of the financial sector. The Government has tried but largely failed to improve the health and efficiency of these two banks by re-capitalizing them, and setting targets and monitoring their performance more closely. However, since most of the bad debt of the two banks is implicitly guaranteed by the state, these problems do not affect the credibility of the banking system in Sri Lanka. Although the ultimate solution lies in privatization of the state banks, this solution is not feasible in the short term due to current political constraints. In a bid to overcome the problems at the state owned banks, the Government signed two agreements with the bank of Ceylon and the people’s bank on July 16, 1998. These agreements aim at commercializing and consolidating operations, increasing productivity, reducing costs, rationalizing staff levels, and branch network, conserving assets, increasing loan recoveries and improving risk management. The Central Bank monitors compliance with the agreements on behalf of the Government. Private commercial banks and foreign banks operating in Sri Lanka generally follow more prudent credit policies. They are required to comply with central bank guidelines on loan loss provisioning. (as of the end of 1996, the average rate of nonperforming loans to total advances was 19 percent for the two SCBS and 12 percent for the five largest private banks in Sri Lanka.) In 1993, Sri Lanka adopted capital adequacy standards set by the BASEL Committee on banking regulations and supervisory practices in 1993.

Acquisition of companies through mergers and takeovers is governed by the Takeovers and Mergers Code of 1995 made under the Securities and Exchange Commission of Sri Lanka Act. This law applies only to companies listed on the Colombo Stock Exchange. Acquisition of more than a 30% stake of a listed company requires the buyer to make a mandatory offer to all other shareholders. Draft legislation is being prepared to give discretionary powers to the sec to waive off this obligation. There are 239 companies listed on the stock exchange. Of them, 27 place restrictions on foreign equity ownership. The articles of association of a few listed companies restrict foreign equity to certain levels. Foreign shareholding in local banks and other financial institutions is restricted to 49% by the central bank.

Political Violence

Sri Lanka has been plagued by ethnic conflict for several decades, and especially since 1983, when fighting between separatist guerillas and government forces escalated dramatically. The fighting is in northern and Eastern Sri Lanka, but other parts of the country have been the scene of sporadic terrorist attacks. Tourists and foreign business representatives have not been terrorist targets.

However, the Liberation Tigers of Tamil Eelam (LTTE) detonated large bombs in Colombo’s financial district in January 1996 and again in October 1997, causing extensive damage. The 1996 attack killed almost 100 people and injured close to one thousand, while the other attack killed 18 people and injured several dozen people. Though no foreigners were killed in these and other bombings in the greater Colombo area, some who were in the vicinity suffered minor injury. The key concern for expatriates doing business in Sri Lanka is being in the wrong place at the wrong time.

In 1998, the U.S. Peace Corps decided to suspend operations in Sri Lanka after LTTE bombings occurred outside the Colombo area, including places such as Galle in the south, and Kandy in the central highlands -- locations where volunteers had been posted, based on the low probability of terrorist attacks. As a result, all Peace Corps volunteers completed their assignments by July 31, 1998.

The U.S. Embassy’s Security Officer has joined with the American Chamber of Commerce in Sri Lanka to establish an

Overseas Security Advisory Council (OSAC) to enhance the exchange of security related information.

Corruption

The country has fairly adequate laws and regulations to combat corruption, but they are very unevenly enforced. U.s. firms identify corruption as a restraint to foreign investment, but, by and large, it is not a major threat to operating in Sri Lanka. Corruption is a persistent problem in customs clearance, and enables wide-scale smuggling of certain consumer items, to the detriment of legitimate manufacturers and importers. Corruption appears to be most troubling in large projects as well as government procurement and tendering, especially in military and defense purchases. The law provides that giving or accepting a bribe is a criminal offense, and carries a maximum sentence of seven years imprisonment and a fine at the discretion of the courts. However, few have been found guilty of corruption in recent years.

A Special Presidential Commission (SPC) of inquiry was established when the People's Alliance (PA) Government came to power in 1994, to investigate alleged corruption, bribery and other malpractices during the previous regime. In 1997, the SPC issued an interim report, which found four former government ministers and officials guilty of misuse of power in a number of deals. The commission did not suggest any fines or sentences for those deemed guilty, but instead recommended suspension of their civic rights, including the right to vote and to run for elected office.

A separate, three-member commission to investigate allegations of bribery or corruption was also appointed in 1994 when the PA Government came into power, to replace a single bribery commissioner. The function of the Bribery Commission (as it is better known) is to investigate allegations brought to its attention and as necessary, institute proceedings against responsible individuals in the appropriate court. In 1998, this commission received severe criticism from opposition politicians as well as the current government for mismanagement, ineffectiveness (few cases have been investigated), and other problems. It is currently moribund and its future is now uncertain.

Bilateral Investment Agreements

The Government of Sri Lanka has signed Investment Protection Agreements with the United States (which came into force in May 1993) and the following countries:

1. Belgium
2. People's Republic of China
3. Denmark

4. Egypt
5. Finland
6. France
7. Germany
8. Indonesia
9. India
10. Iran
11. Italy
12. Japan
13. Korea
14. Luxembourg
15. Malaysia
16. Netherlands
17. Norway
18. Romania
19. Singapore
20. Sweden
21. Switzerland
22. Thailand
23. United Kingdom

OPIC and Other Investment Insurance Programs

The U.S. and Sri Lanka concluded in 1966 (and renewed in 1993) an agreement that allows the Overseas Private Investment Corporation (OPIC) to provide investment insurance guarantees for U.S. investors. OPIC currently provides coverage to banking sector investments in Sri Lanka. Sri Lanka's membership in the Multilateral Investment Guarantee Agency (MIGA) offers an opportunity for insurance against non-commercial risks.

Approximately $10.3 million is spent annually by the U.S. Embassy and other U.S. Government institutions in Sri Lanka. This amount can potentially be utilized by OPIC to honor an inconvertibility claim; however, no such claims have been made to date in Sri Lanka. The Embassy purchases local currency at the financial rate. The currency is not expected to fluctuate by more than 10 percent relative to the U.S. dollar over the next year.

Labor

Sri Lanka's labor force is literate and trainable, although weak in certain technical skills. Although more computer skills training programs are becoming available, the demand still outpaces supply, as many qualified workers seek employment overseas. The average worker has eight years of schooling. Two-thirds of the labor force is male and one-third is female. The unemployment rate in the third quarter of 1998 was approximately 9.1 percent, with an estimated 607,000 of a total labor force of 6.7 million out of work (excluding the north and east). Including unpaid family workers, the unemployment rate is 10.3 percent. Youth unemployment remains a critical problem. Over 80 percent of unemployed persons are in the 15-29 year age range. Nearly 30 percent of unemployed youth are educated at the O-Level (10th grade) or higher. Not surprisingly, a significant proportion of unemployed seek "white collar" jobs, and most sectors facing labor shortages offer manual or semi-skilled jobs. The Government has recognized the challenge of reformulating the educational system to meet the needs of the private sector better, but it will likely take some time before the mismatch of skills to requirements is rectified.

Labor is available at a relatively low cost, though it is priced higher than in other South Asian Countries. Child labor is prohibited and is virtually nonexistent in the organized sector. Child labor is prevalent in informal sectors. The minimum legal age for employment in domestic service is currently set at 12, and in other sectors, the minimum age is defined as 14. Most permanent full-time workers are covered by laws pertaining to minimum hours of work, minimum wage, leave, the right of association, and safety and health standards. In addition, a termination of employment act makes it almost impossible to fire or lay off workers who have been employed more than six months for any reason other than serious, well-documented disciplinary problems. Disputes over dismissals can be brought to a labor tribunal administered by the ministry of justice.

Collective bargaining is not yet very popular. However, over 400 companies (including a number of foreign-owned firms) belonging to the Employers' Federation of Ceylon (EFC) rely on the efc to conduct negotiations on their behalf as and when required.

Sri Lanka is a member of the International Labor Organization (ILO) and has ratified 29 international labor conventions. The labor laws of Sri Lanka are laid out in almost 50 different statutes. With ILO assistance, the Government is attempting to carry out a codification of these laws. In 1994, the Government announced a new workers' charter, but the implementing legislation met with stiff opposition from the private sector and was never approved. A task force on employment subsequently appointed by the President has made recommendations to a cabinet subcommittee. The recommendations include adopting a more flexible approach towards the labor market (i.e., freeing up the provisions on termination) and making labor unions more accountable for the (sometimes violent and destructive) conduct of their members, in exchange for strengthened recognition of unions. During 1998, the Labor Ministry tried to revive discussion of a workers' charter, but the EFC and other employers' representatives walked out of meetings, voicing concern over the Government's apparent disregard for the task force recommendations.

Only about 15 percent of labor in the industry and service sector is unionized. Labor in free trade zone enterprises tends to be represented by non-union worker councils (labor advocates criticize BOI rules and management regulations which make access to the zones and to factories outside the zones virtually impossible for union representatives and labor organizers). In the plantation sector, union participation rates are as high as 75 percent, though unionization levels are reportedly on the decline. Also, many public sector entities have large and vocal unions, which often stage protests and "industrial actions," sometimes to protest anticipated moves towards privatization. In general, labor unions are quite activist, and strikes are not uncommon. There were at least two major strikes in 1998 by plantation workers (notably, the settlement included acceptance of a profit-sharing mechanism) and by postal workers, which caused disruption to mail delivery for many weeks. In June 1999, government doctors struck work for several days protesting against efforts to give provincial governments control over health services, crippling medical services throughout the country. Most of the major trade unions are affiliated to political parties, creating a highly politicized labor environment. Labor-management relations vary from organization to organization; managers who emphasize communication with workers and offer training opportunities generally experience fewer difficulties.

Foreign Trade Zones

Sri Lanka has six free trade zones, also called export processing or investment promotion zones, which are administered by the BOI. The oldest of them, the Katunayake and Biyagama Zones, located north of Colombo near the Bandaranaike international airport, are fully occupied; in fact, labor shortages have been reported by some companies located in these zones. The third zone is located at Koggala on the Southern Coast, and another is in Pallekelle, near Kandy, in Central Sri Lanka. The BOI is hoping to develop non-polluting high technology investments in the Pallekelle location, which at present has only two tenants. Two new Export Processing Zones were opened in 1997. They are located North-East of Colombo, in Mirigama and Malwatte. There are over 175 foreign export processing enterprises operating in the six zones. An industrial zone, funded by the overseas economic cooperation fund of Japan, was opened in March 1999 at Seethavaka, in Aavissawela about 60 kilometers from Colombo. This zone is owned by the Sri Lankan Ministry of Industrial Development and managed by the BOI. In addition, several other industrial estates are being developed. The BOI offers site selection assistance to investors considering locations outside of the zones. However, the BOI now actively encourages the setting up of export-oriented factories in the zones, due to the ease of providing infrastructure, security, as well as monitoring by the BOI.

Foreign Direct Investment

Major U.S. companies with investments in Sri Lanka include: Eveready Battery, Mast Industries, Smart Shirts (a subsidiary of Kellwood Industries), Interkiln, CPC International/ Bestfoods, Caltex, Sportif, Citibank, American Express Bank, 3M, Cargill, Tandon Associates, and Intellical. In addition, IBM, NCR, Lanier, GTE, AT&T, Sea-land, Motorola, Procter & Gamble, Liz Claiborne, May Department Stores, Federated Department Stores, London Fog, Tommy Hilfiger, J.C. Penney, the Gap, Sun Microsystems, Microsoft, Bankers Trust, Coca Cola, Bates Strategic Alliance, McCann-Erickson, J. Walter Thompson, Pricewaterhouse Coopers, Ernst & Young and KPMG all have branches, affiliated offices or local distributors/ representatives. Kentucky Fried Chicken, Pizza Hut, Federal Express, UPS and McDonald's are represented in Sri Lanka through franchises. Numerous other American brands and products are represented by local agents.

Major non-u.s. investors include: Unilevers, Nestle's, British American Tobacco Company, Mitsui, Pacific Dunlop/Ansell, Prima, FDK and S.P. Tao. Leading U.S. and foreign investors which have acquired significant stakes in privatized companies include Caltex; Norsk Hydro of Norway; Kabool Spinning and Textile, Tongyang Nylon, and Hanjung Steel, all of Korea: Nippon Telephone and Telegraph, Mitsubishi Corporation and C. Itoh (A.K.A. Itochu) of Japan, Emirates Airlines of United Arab Emirates, and Shell Oil of the UK.

Reliable statistics on foreign investment by country are not available. Leading sources of foreign investments are South Korea, Japan, U.S., Australia, Hong Kong, Singapore, and the U.K. U.S. investments are estimated to be in the region of $150 to $200 million.

Investment Statistics

Estimated total foreign investment by sector
(in $ millions)

--	Total end 1997	Inflow 1998	Total end 1998
Food & beverage	73	8	80
Text/apparel,leather	262	-	262
Chemicals, rubber, plastic	100	10	110
Non-met. mineral products	18	29	47
Fabricated metal, machinery	20	24	44
Other manufactured	82	17	104
Services	774	129	903
Total	1,333	217	1,550

Source: Board of Investment of Sri Lanka

Note: Investment figures reported here consist of direct investment plus loan financing. The data provided by the BOI are incomplete. They do not include foreign investment that came through non-BOI sources prior to 1994. Foreign investment in the banking sector is also not included. Figures reported by the BOI have been converted at average exchange rates prevailing in 1997 and 1998.

Chapter VIII

TRADE AND PROJECT FINANCING

Banking System

Sri Lanka has a fairly well diversified banking system which includes the Central Bank of Sri Lanka, two large state-owned commercial banks, seven private domestic commercial banks, eighteen foreign banks, a national savings bank, seventeen regional rural development banks, two large development finance institutions--the Development Finance Corporation of Ceylon (DFCC) and the National Development Bank (NDB)--a mortgage bank, and ten merchant banks. There are two American banks (Citibank N.A. and American Express) among the foreign commercial banks operating in Sri Lanka. In addition, Bankers Trust has correspondent banking operations here. Recently, Citibank, in collaboration with the NDB, opened a joint venture investment bank in Sri Lanka. The domestic commercial banks operate a wide network of branches throughout the island. All commercial banks operate foreign currency banking units (FCBU), and conduct off-shore business and finance projects approved by BOI. All Sri Lankan commercial banks have correspondent relationships with U.S. banks. In 1993, Sri Lanka adopted Basel Accord capital guidelines of 8 percent of risk-adjusted assets as the minimum capital requirement for commercial banks. Commercial banks are also required to comply with Sri Lanka Auditing and Accounting Standards and Central Bank guidelines on loan loss provisioning.

Foreign Exchange Controls Affecting Trading

There are no foreign exchange controls affecting active trading. Sri Lanka removed all exchange control restrictions on current account transactions effective March 15, 1994. Controls do exist on capital account transactions, but these are generally avoided on projects receiving Board of Investment (BOI) approval.

General Financing Availability

Commercial banks provide term loans and working capital loans for importers. High interest costs (averaging 20 percent; about 15 percent for prime customers) are a fact of life faced by the local business community, but foreign investors, BOI-approved local firms and exporters can access dollardenominated loans with dollar interest rates. Two local development banks provide development financing and equity. The commercial banks are allowed to borrow abroad up to 15 percent of their capital funds.

Most foreign-owned firms must have foreign sources of financing for fixed and working capital requirements. Foreign majority joint ventures are not allowed automatic access to local credit markets. Such firms must get approval from the Central Bank on a case-by-case basis.

Export Financing and Insurance

U.S. Exports to Sri Lanka can be supported by the U.S. Export-Import (ExIm) Bank, which can provide loan and loan guarantee programs to U.S. exporters interested in exporting to Sri Lanka. Although ExIm Bank financing has infrequently been used for exports to Sri Lanka, in 1997, ExIm credits of US$ 10 million financed exports of prefabricated building and components made in the U.S. for a U.S.-Sri Lanka joint venture porcelain factory in Sri Lanka.

The U.S. Department of Agriculture's PL-480 and GSM credit guarantee programs are currently in operation to finance U.S. wheat and cotton exports to Sri Lanka.

The Overseas Private Investment Corporation (OPIC) provides investment insurance guarantees for U.S. investors. OPIC currently provides coverage to banking sector investments in Sri Lanka.

Project Financing

Funds provided through multilateral agencies have been the major source of term lending for government projects. The Asian Development Bank and the World Bank are the major sources of project financing. The U.S. Trade and Development Agency (TDA) funds feasibility studies, orientation visits, specialized training grants, business workshops and various forms of technical assistance to help American businesses compete for infrastructure and industrial projects. Long-term subordinated debt for private infrastructure is available through the Private Sector Infrastructure Development Company (PSIDC), a state-owned company. PSIDC, established in 1995, supplements the usual commercial sources of finance for infrastructure projects with funding obtained from the World

Bank and the KfW of Germany. It concentrates on four areas, namely power, telecommunications, transport and solid waste management. In addition, bilateral donors like Japan and Germany also fund major projects by providing long term concessional loans.

Existing World Bank IDA loans:
- $39 million for Colombo environment improvement
- $77 million for private infrastructure development
- $64 million for teacher education
- $70 million for general education
- $15 million for environmental action
- $24 million for energy services delivery
- $18 million for health services
- $57 million for Mahaweli restructuring
- $29 million for emergency Y2K technical assistance

Proposed IDA loans:
- Kelanitissa Power partial-risk guarantee
- Legal reform
- Postal service reform
- Northeast irrigation rehabilitation

Existing ADB loans:
- $75 million for water supply and sanitation
- $30 million for southern road development
- $20 million for perennial crops development
- $16 million for watershed improvement
- $20 million for science and technology personnel
- $20 million for north central province rural development
- $75 million for power systems expansion
- $60 million for plantation reforms
- $80 million for road network development
- $74 million for urban development and housing
- $37 million for tea development

Proposed ADB loans (1999-2000):
- $10 million for biodiversity conservation
- $30 million for coastal resource management
- $80 million for southern transport development
- $20 million for forestry resource management
- $40 million for western river basin
- $40 million for private sector development
- $50 million for power sector restructuring

Selling to the Asian Development Bank: A Commercial Liaison Office which reports directly to the Office of Multilateral Development Banks at the Commerce Department in Washington, assists U.S. suppliers and consultants in winning contracts on ADB-funded projects and activities. The office includes a Senior Commercial Officer and two Commercial Specialists. One of the specialists represents the United States-Asia Environmental Partnership (US-AEP) at the bank. The liaison works closely with the U.S. Executive Director who represents the United States on the Bank's Board of Directors.

Interested parties should contact the Mr. Denny Barnes, Senior Commercial Officer and U.S. Commercial Liaison to the Asian Development Bank, c/o U.S. Embassy Manila, APO AP 96515; email: Dbarnes3@doc.gov; tel: (632) 890-9364; fax: (632) 890-9713.

Chapter IX

BUSINESS TRAVEL

Business Customs

The business language is English. Business cards are a necessity. Courtesy is highly valued in Sri Lanka, and personal graciousness plays a major role in clinching deals. While punctuality is not as highly prized as in the United States, most appointments and other commitments are scrupulously observed.

Travel Advisory and Visas

Excerpts from the latest Consular information Sheet (last updated in September 1998) follow:

> Areas of Instability: The 15-year old armed conflict between the government of Sri Lanka and a Tamil separatist group, the Liberation Tigers of Tamil Eelam (LTTE) continues. The military launched a major offensive in the north in May 1997. Fighting has been intense. The LTTE responded with stepped up military and terrorist activity in the east. The military conflict in Jaffna, the northern peninsula and the eastern provinces, including the towns of Trincomalee and Batticaloa, is expected to continue. Sri Lankan defense regulations restrict travel in much of the island's northern area, including Wilpattu and Gal-Oya national parks. Yala National Park was closed following several terrorist incidents in July 1996 and access by the public continues to be severely restricted. Travelers are advised not to travel to the north, east and far southeast of the country. The U.S. Government maintains tight security procedures regarding travel of U.S. Government employees, officials, and dependents to those areas.
>
> Terrorist Activity: In October 1997, the State Department formally designated the LTTE as a foreign terrorist organization. Terrorist activities in the capital city of Colombo and other areas remain a serious threat. Political assassinations are routinely carried out by the LTTE. In 1997 the LTTE attacked several commercial ships flying flags in the waters off the north and east of the country. While no terrorist attacks against international or domestic aviation in Sri Lanka have been recorded since 1987, in late 1998 threats were directed at domestic air carriers flying between Colombo and Jaffna.
>
> Colombo's major hotels have been directly affected by terrorist activities and could be again because of their proximity to likely economic, government and military

targets in the capital. In October 1997, a truck bomb was detonated in downtown Colombo, badly damaging nearby office buildings and adjacent five-star hotels. Eighteen people were killed and over 100 people were injured. U.S. citizens present at the time escaped major injury and death.

Although U.S. citizens have not been specifically targeted, LTTE operations have been planned and executed with the knowledge that Americans and other foreigners may be killed or injured. Tourists or business representatives traveling in Sri Lanka who are in the wrong place at the wrong time may be inadvertently caught up in random acts of violence. Additional attacks, especially on infrastructure facilities, could result in future tightening of security, causing hardship to travelers.

Americans are urged to exercise extreme caution in Colombo because of possible terrorist activities there. In addition, Americans are advised to avoid political rallies and other mass gatherings, limit exposure to government and military installations and use caution when traveling on public buses and trains. Street and highway checkpoints staffed by security personnel are common: travelers should closely follow any instructions given. Non Sri-Lankan citizens of Tamil heritage have occasionally been detained during security operations. All U.S. citizens are encouraged to keep their passports with them at all times in Colombo. In the event of a terrorist attack, Americans should monitor local radio and television, seek cover away from windows and return to their homes or hotels when it is safe to do so.

U.S. citizens are strongly encouraged to register with the Embassy upon arrival in Sri Lanka.

Crime Information: Petty street crime such as purse snatching and pickpocketing is common, especially on crowded local transportation. The loss or theft of a U.S. passport should be reported immediately to local police and the U.S. Embassy. Useful information on safeguarding valuable, personal security and other matter's while traveling abroad is provided in the pamphlets "A Safe Trip Abroad" and "Tips for Travelers to South Asia". They are available from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402

Drug Penalties: U.S. citizens are subject to the laws of the country in which they are traveling. Penalties for possession, use and trafficking in illegal drugs are strictly enforced.

Entry and Registration Requirements: A passport, onward/return ticket and proof of sufficient funds (US$15 per day) are required. A tourist visa can be granted at the time of entry into Sri Lanka and may be valid for a maximum of 90 days. Business travelers may be granted a landing endorsement at the port of entry for a one-month period under certain circumstances. Yellow fever and cholera immunizations are needed if arriving from an infected area. Further information can be obtained by contacting the Embassy of the Democratic Socialist Republic of Sri Lanka, 2148 Wyoming Avenue, NW, Washington, DC 20008, telephone (202) 483-4025~8, or the Sri Lankan Consulate in New York, telephone (212) 986-7040. There are also honorary Sri Lankan consuls in Los Angeles, Honolulu; telephone (808) 735-1622, New Orleans; telephone (504) 455-7600 and New Jersey; telephone (201) 627-7855. Sri Lankan law requires all persons including foreigners, who are guests in private household to register in person at the nearest local police station. Individuals who stay in private household without registering may be temporarily detained for questioning. This requirement does not apply to individuals staying in hotels or guesthouses.

For recorded travel information from the State Department, call (202) 647-5225. For information by fax, call (202) 647-3000. Consular Information Sheets can also be obtained from the State Department's Internet website at http://www.travel.state.gov.

Holidays

Sri Lanka holidays are connected with the country's four religions: Buddhism, Hinduism, Islam and Christianity. Dates change from year to year. Holidays with fixed dates include Independence Day (February 4), Labor Day (May 01) and Christmas (December 25). Each full moon is marked by a Poya Day holiday.

The following is a list of holidays for 2000.

January	09	Ramazan Festival
January	15	Thai Pongal
January	20	Duruthu Poya
February	04	National Day
February	19	Navam Poya
March	04	Mahasivarathri Day
March	17	Id-Ul-Allah (Hajji Festival)
March	19	Medin Poya
April	12	Day Prior to Sinhala/Tamil New Year
April	13	Sinhala and Tamil New Year
April	18	Good Friday
April	21	Bak Poya
May	01	May (Labor) Day

May	17	Vesak Poya
May	18	Day Following Vesak Poya
June	15	Holy prophet’s Birthday
June	16	Poson Poya
July	16	Esala Poya
August	14	Nikini Poya
September	13	Binara Poya
October	12	Vap Poya
October	26	Deepavali Festival
November	22	Il Poya
December	10	Unduvap Poya
December	25	Christmas
December	28	Ramazan Festival

Business Infrastructure

Colombo is served by a fairly modern international airport. Long-distance international flights often arrive and depart at somewhat inconvenient times (i.e., in the middle of the night). At present, no U.S. carriers provide service to Sri Lanka, though several U.S. airlines have sales agents in the country.

With over 25,000 kilometers of paved road, all parts of the island--aside from the war zones in the north and east--are easily accessible. However, virtually all roads are only one lane in each direction, and the average speed of travel is only about 20 miles per hour (30 kmh). Traffic in Colombo is very congested. Vehicle traffic moves on the left (British style). Narrow highways, dangerously driven intercity buses, overloaded trucks and a variety of vehicles ranging from ox carts to new four-wheel drive jeeps on the road make driving a challenge, not to mention dangerous. Many visitors hire cars and drivers, or use local taxi services. Radio-operated metered taxi cabs and motorized trishaws are freely available in the Colombo area. Taxi cabs are generally prearranged by phone, while the trishaws can be hailed on the street (rates must be negotiated, in advance).

International direct dialing is available and cellular telephones have become increasingly popular. International mail and courier services (including FedEx, UPS and DHL) are also available. A number of local providers offer Internet and e-mail services; because the phone line quality varies, connections are sometimes unstable.

Several five-star hotels provide accommodations and a wide range of amenities and services for business travelers in Colombo. There are also dozens of fine beach resorts two to three hours away. Housing facilities for expatriates are satisfactory, and options are steadily improving. Stand-alone homes with yards are available, but often require extensive effort and resources to renovate and maintain. Some expats choose to negotiate long-term living arrangements with five-star hotels for suites or rooms with kitchenettes. Several luxury apartment buildings, offering furnished units and numerous amenities (e.g., pool, health club, shopping, restaurants), and catering primarily to expatriates, have recently opened in Colombo.

Medical facilities are limited, but generally adequate. Doctors and hospitals often require immediate cash payment for health services. A serious illness or injury might require evacuation to the nearest country where more comprehensive medical facilities are available, usually Singapore or Thailand. Because U.S. medical insurance is not always valid outside the United States, supplemental insurance with specific overseas coverage, including medical evacuation coverage, may prove useful.

Several well-stocked supermarkets are located in Colombo. The Overseas School of Colombo offers programs for pre-school through twelfth grade, and is the only international school offering an International Baccalaureate diploma, which is the equivalent of a diploma from an American high school. Comprehensive practical information for Americans living in Colombo can be found in the "Colombo Handbook" published by the American Women’s Association of Sri Lanka and available in bookstores in Colombo.

The American Chamber of Commerce in Sri Lanka (AmCham) has close to 200 members, including firms with majority U.S. ownership, local agents representing U.S. goods and services, as well as local companies that have commercial relations with U.S. entities. The AmCham sponsors monthly luncheon meetings with a featured speaker, intermittent breakfast meetings with visiting U.S. officials and other guests, and occasional cocktail get-togethers. Since 1997, the AmCham has hosted an annual American Ambassador’s Dinner. In addition, the AmCham has with other local and U.S. government-sponsored organizations co-sponsored quality and productivity seminars and a trade mission. The AmCham also organizes and sponsors the American Trade Fair, held once every 18 to 24 months, with Embassy support. The AmCham published a comprehensive membership directory in 1998, which is available to non-members for purchase. See appendix E for contact information.

"Key Officers of Foreign Service Posts: Guide for Business Representatives" is available for sale by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402; tel. (202) 512-1800; fax (202) 512-2250. Business travelers to Sri Lanka seeking appointments with U.S. Embassy Colombo officials should contact the Economic-Commercial Section in advance. The Economic-Commercial Section can be reached by telephone at 94-1-448-007, by fax at 94-1-437-345, or by email at coml@eureka.lk or ecpo@eureka.lk. Economic and commercial information prepared by the Embassy can also be found on the Embassy’s website at www.usia.gov/posts/sri_lanka.

Temporary Entry of Goods

Temporary entry for exhibition material is allowed under the Carnet system of the International Chamber of Commerce. The exporter should ensure that required documents under the Carnet system are certified in the country of origin of the material. These documents should be presented at the time the goods are clearing Customs. Goods brought into the country under the Carnet system must be re-exported within six months. For additional information, contact the approving authority: Director of Customs, Times Building, Colombo 1, telephone 94-1-421141~9, fax 94-1-446364.

Visitors carrying laptop computers and software for use during their stay should declare the items to Customs upon entry and pay a refundable deposit, which is equivalent to a 12.5% Goods and Services Tax and a 0.5% National Security Levy. The deposit is refunded at the time of departure at the Customs counter at the airport. In practice, the rule is not strictly enforced in the case of small quantities of software brought in for temporary personal use.

Chapter X

ECONOMIC AND TRADE STATISTICS

APPENDIX A - Country Data

- Population: 18,774,000 (1998)
- Population growth rate (percent): 1.2 (1998)
- Religions: Buddhism, Hinduism, Christianity, Islam
- Government system: President and Parliament
- Languages: Sinhala, Tamil and English
- Work week: Monday to Friday

APPENDIX B - Domestic Economy

Domestic Economy (in $ millions, except where noted)	1997	1998	1999 Est
- GDP(a)	15,090	15,710	16,430
- GDP growth rate	6.3	4.7	4.0
- GDP per capita($)	814	837	858
- Government spending(% of GDP)	26	26	26
- Inflation	9.6	9.4	9.0
- Unemployment	10.3	8.8	9.0
- Foreign exchange reserves	3,130	2,900	2,800
- Average exchange rate (Rs. per $)	58.99	64.59	70.00
- Foreign debt	8,197	8,753	9,100
- Debt service ratio(b)	11.0	11.0	12.0
- U.S. economic assistance(c)	21.9	11.7	10.0

(a) at current market prices
(b) as a percentage of receipts from merchandise exports, services, income and private transfers
(c) includes PL480 assistance

Sources: Central Bank and Embassy estimates

APPENDIX C - Trade

(in $ millions, except where noted)	**1998**
- Total exports	4,735
- Total imports	5,891
- U.S. imports from Sri Lanka	1,890

- U.S. exports to Sri Lanka 230

Sources: Central Bank of Sri Lanka

Appendix D: Investment statistics

Estimated total foreign investment by sector
(in $ millions)

--	Total end 1997	Inflow 1998	Total end 1998
Food & beverage	73	8	80
Text/apparel,leather	262	-	262
Chemicals, rubber, plastic	100	10	110
Non-met. Mineral products	18	29	47
Fabricated metal, machinery	20	24	44
Other manufactured	82	17	104
Services	774	129	903
Total	1,333	217	1,550

Source: Board of Investment of Sri Lanka

Note: Investment figures reported here consist of direct investment plus loan financing. The data provided by the BOI are incomplete. They do not include foreign investment that came through non-BOI sources prior to 1994. Foreign investments in the banking sector and privatization proceeds are also not included. Due to these shortcomings, there are discrepancies between data reported in this table and FDI data provided in the balance of payment section of chapter 2 of this report.

Reliable statistics on foreign investment by country are not available. Leading sources of foreign investments are South Korea, Japan, U.S. Australia, Hong Kong, Singapore, and the U.K. U.S. investments are estimated to be in the region of $100 to $200 million. Figures reported by the BOI have been converted at average exchange rates prevailing in 1997 and 1998.

CHAPTER XI

APPENDIX E - U.S. AND COUNTRY CONTACTS

Trade Associations/Chambers of Commerce/Other Organizations

American Chamber of Commerce of Sri Lanka
David Anderson, President
Teresa Reyes, Executive Director
Colombo Hilton Hotel, Lotus Road, Colombo 1
Phone: 94-1-544644
Fax: 94-1-544657
E-Mail: amcham@itmin.com

Ceylon Chamber of Commerce
C. Jayasuriya, Secretary General
50 Nawam Mawatha, Colombo 2
Phone: 94-1-421745/46/47
Fax: 94-1-449352
E-Mail: chamber2@sri.lanka.net

National Chamber of Commerce
Neil Seneviratne, General Secretary
450 D.R. Wijewardene Mawatha, Colombo 10
Phone: 94-1-689600
Fax: 94-1-689596
E-Mail: nccsl@slt.lk

Federation of Chambers of Commerce & Industry of Sri Lanka
Lal de Mel, President
29 Gregory's Road, Colombo 7.
Phone: 94-1-698225
Fax: 94-1-699530
E-Mail: sgneral@fccisl.org

The Ceylon National Chamber of Industries
Asoka Tennakoon, Secretary General
Flat 20, 1st Floor Galle Face Court #2, Colombo 3.
Phone: 94-1-331444
Fax: 94-1-331443

Sri Lanka Chamber of Small Industry
Kosala Wickramanayake, President
9, 3rd Floor, Galle Face Court 1, Colombo 3
Phone: 94-1-438715
Fax: 94-1-336466

Colombo Stock Exchange

Rienzie Wijeyatilleke, Chairman
#4-01 West Block, World Trade Center
Echelon Square, Colombo 1
Phone: 94-1-446581
Fax: 94-1-445279
E-Mail: cse@sri.lanka.net

Employer’s Federation of Sri Lanka
Franklyn Amarasinghe, Secretary General
385/J 3 Old Kotte Road, Rajagiriya
Phone: 94-1-867966
Fax: 94-1-867942/867946
E-Mail: mfed@sri.lanka.net

Government Agencies and Offices

Ministry of Finance
Dixon Nilaweera, Secretary
Galle Face Secretariat, Colombo 1
Phone: 94-1-431761
Fax: 94-1-433349

Ministry of Foreign Affairs
T.H.W. Wouterz, Secretary
Republic Building, Colombo 1
Phone: 94-1-325371
Fax: 94-1-333450

Ministry of Industrial Development
Mahinda Bandusena, Secretary
73/1 Galle Road, Colombo 3
Phone: 94-1-436123/4
Fax: 94-1-449402
E-Mail: mnindder@slt.lk

Ministry of Industrial Development
J.M.U. Jayasekera, Director General, Textile Quota Board
375 "Vilasitha Niwasa", Havelock Road, Colombo 6
Phone: 94-1-580655, 508032/34
Fax: 94-1-503211

Ministry of Internal & International, Commerce and Food
Anton Alfred, Secretary
21 Vauxhall Street, Colombo 1
Phone: 94-1-435063
Fax: 94-1-467669

E-Mail: trade@tradenetsl.lk

Ministry of Irrigation, Power and Energy
Jaliya Medagama, Secretary
Phone: 94-1-687370/43
Fax: 94-1-694968
Ananda Gunasekara, Additional Secretary (power)
Phone: 94-1-687377
Fax: 94-1-684601
500 T.B. Jayah Mawatha, Colombo 10
E-Mail: jaliyam@eureka.lk

Ministry of Post, Telecommunication & Media
K.C. Logeswaran, Secretary
17 & 18 Floor, World Trade Center, West Tower
Echelon Square, Colombo 1
Phone: 94-1-422591/92/93
Fax: 94-1-541531
E-Mail: sectel@slt.lk

Central Bank of Sri Lanka
A.S. Jayawardena, Governor
35 Floor, World Trade Center, West Tower
Echelon Square, Colombo 1
Phone: 94-1-346251/52/53
Fax: 94-1-346252
E-Mail: gov_cb@slt.lk
http://www.centralbanklanka.org

Public Enterprise and Reform Commission (PERC)
P.B. Jayasundera, Chairman
Mano Tittawela, Director General
World Trade Center, 11th Floor, West Tower
Echelon Square, Colombo 1
Phone: 94-1-338756/57/58
Fax: 94-1-326116
E-Mail: dg@perc.gov.lk

Board of Investment of Sri Lanka (BOI)
Thilan Wijesinghe, Director General
P.O. Box 1768, 20th Floor, East Tower
World Trade Center, Echelon Square, Colombo 1
Phone: 94-1-436639/422407
Fax: 94-1-447995
E-Mail: info@boisrilanka.org
http://www.boisrilanka.org

Bureau of Infrastructure Investment
Ranjit Thabrew, Deputy Director General
P.O. Box 1768, 20th Floor, East Tower
World Trade Center, Echelon Square, Colombo 1
Phone: 94-1-346091
Fax: 94-1-346090

Department of Commerce
M.G. Hewage, Director
"Rakshana Mandiraya"
Vauxhall Street, Colombo 2
Phone: 94-1- 430068/329733
Fax: 94-1-430233
E-Mail: fortrade@sri.lanka.net

Department of Immigration & Emigration
Lakshman Perera, Controller of Immigration
Chaithiya Road, Colombo 1
Phone: 94-1-436354/597510/11/12
Fax: 94-1-437040

Department of Inland Revenue
O.M. Weerasuriya, Commissioner General
Sir Chittampalam A. Gardiner Mawatha, Colombo 2
Phone: 94-1-421241
Fax: 94-1-430816

Sri Lanka Customs Department
S.M.J. Senaratne, Director General
Custom House, Times Building
Bristol Street, Colombo 1
Phone: 94-1-421141/445147
Fax: 94-1-446364

Department of Labor
R.P. Wimalasena, Labor Commissioner
Labor Secretariat
Narahenpita, Colombo 5
Phone: 94-1-581142
Fax: 94-1-581145

Ceylon Electricity Board
Arjun Deraniyagala, Chairman
D.G.C. Wijeratne, Additional General Manager, Planning

D.K.B.S. Thilakasena, Deputy General Manager, Generation Projects
Sir Chittampalam A. Gardiner Mawatha, Colombo 2
Phone: 94-1-324471
Fax: 94-1-449572/348587

Securities and Exchange Commission of Sri Lanka
Dr. W. Hettiarachchi, Chairman
Level 2, East Tower #11-01
World Trade Center, Echelon Square, Colombo 1
Phone: 94-1-439144/48
Fax: 94-1-439149
E-Mail: secsl@sri.lanka.net

Telecommunications Regulatory Commission of Sri Lanka
K.C. Logeswaran, Acting Director General
276 Elvitigala Mawatha, Colombo 8
Phone: 94-1-689336
Fax: 94-1-689341
E-Mail: dgtsl@slt.lk

Sri Lanka Standards Institution
Dr. A.R.L. Wijesekera, Chairman
17 Victoria Place
Elvitigala Mawatha, Colombo 8
Phone: 94-1-674618
Fax: 94-1-671579
E-Mail: slsidg@mail.ac.lk

Ceylon Petroleum Corporation
Anil Obeysekera, Chairman/Managing Director
80 Flower Road, Colombo 7
Phone: 94-1-574587
Fax: 94-1-574596

National Intellectual Property Office of Sri Lanka
Dr. D.M. Karunaratne, Director
"Samagam Medura"
400 D.R. Wijewardene Mawatha, Colombo 10
Phone: 94-1-689368
Fax: 94-1-689367
E-Mail: nipos@sltnet.lk

Department of The Registrar of Companies
D.K. Hettiarachchi, Registrar
"Samagam Medura"
400 D.R. Wijewardene Mawatha, Colombo 10
Phone: 94-1-689212
Fax: 94-1-689211

Department of Civil Aviation
Lal Liyanaarachchi, Director
64 Galle Road, Colombo 3
Phone: 94-1-333447
Fax: 94-1-424540
e-mail: stdgca@slt.lk

Private Sector Infrastructure Development Co. Ltd.
Leel Wickramaarahchi, General Manager/CEO
Level 22-01, West Tower
World Trade Center
Echelon Square, Colombo 1
Phone: 94-1-346385
Fax: 94-1-346383
E-mail: info@psidc.com

Drugs Regulatory Authority of Sri Lanka
Dr.Ajith Mendis, Director
120 Norris Canal Road, Colombo 10
Phone: 94-1-695173
Fax: 94-1-689704
E-Mail: desc_moh@slt.lk

Market Research Firms

Agro Skills Ltd.
S. Kumaraswamy, Director
77/1 Isipathana Mawatha, Colombo 5
Phone: 94-1-584124
Fax: 94-1-584124

Org-Marg Smart
Ms. Janaki Kuruppu de Silva, Director
10/2 Sunandarama Road, Kalubowila, Dehiwela
Phone: 94-1-826362
Tel/fax: 94-1-588378

Resource Organization and Management Intl. Ltd.
Malwila Dissanayake, President & CEO
1 6th Lane, Galle Road, Colombo 3
Phone: 94-1-575233
Fax: 94-1-575233

Teams (Pvt) Ltd.
Wimal Gunawardhena, Chairman/Managing Director
P.O. Box 262, Colombo
Phone: 94-1-686429

Fax: 94-1-686947

Lanka Market Research Bureau Ltd.
Shaheen Cader, Project Director
3rd Floor, 228 Galle Road, Colombo 4
Phone: 94-1-500525
Fax: 94-1-500437

Lanka Asia Management Systems Co (Pvt) Ltd.
C. Mahendran, Managing Director
Hotel Lanka Oberoi, Suite 340, 77 Steuart Place, Colombo 3
Phone: 94-1-437437/421171
Fax: 94-1-437437 ext 341

Institute of Policy Studies (IPS)
Saman Kelegama, Executive Director
99 St. Michael's Road, Colombo 3
Phone: 94-1-431368
Fax: 431395

Internationally Affiliated Accounting/Consulting Firms

Pricewaterhouse Coopers
Deva Rodrigo, Partner
315 Vauxhall Street
Colombo 2
Phone: 94-1-341473
Fax: 94-1-342389

KPMG Ford Rhodes Thorton & Co.
G.C.B. Wijeyesinghe, Senior Partner
32 A Sir Mohamed Macan Market Mawatha
Colombo 3
Phone: 94-1-448480
Fax: 94-1-445871/446058

Ernst & Young
M.T.L. Fernando, Partner
201 De Saram Place
Colombo 10
Phone: 94-1-697363
Fax: 94-1-697369

Someswaran Jayawickrema & Co.
(Arthur Anderson Representative)
T. Someswaran, Senior Partner
222 Galle Road, Colombo 4
Phone: 94-1-580409
Fax: 582452

Major Commercial Banks and Development Banks

American Express Bank Ltd.
104 Dharmapala Mawatha, Colombo 3
Phone: 94-1-682795
Fax: 94-1-682786

ANZ Grindlays Bank Ltd.
37 York Street, Colombo 1
Phone: 94-1-446150~57, 432286/87/88
Fax: 94-1-446158

Bank of Ceylon
4 Bank of Ceylon Mawatha, Colombo 1
Phone: 94-1-446790/544333
Fax: 94-1-445798

Commercial Bank
21 Bristol Street, Colombo 1
Phone: 94-1-447516/430420
Fax: 94-1-449889
E-Mail: commerce@sri.lanka.net

Citibank N.A.
67 Dharmapala Mawatha, Colombo 7
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Fax: 94-1-445487

Hatton National Bank
10 R.A. de Mel Mawatha, Colombo 3
Phone: 94-1-421885/430908
Fax: 94-1-446312
E-Mail: hnblanka.com

Hongkong & Shanghai Banking Corporation Ltd.
24 Sir Baron Jayatilaka Mawatha, Colombo 1
Phone: 94-1-325435~38/446591~99
Fax: 94-1-438585

Pan Asia Bank Ltd.
450 Galle Road
Colombo 3
Phone: 94-1-565564/56570-71
Fax: 94-1-565558

Peoples Bank
75 Sir Chittampalam A. Gardiner Mawatha, Colombo 2
Phone: 94-1-324188/326429
Fax: 94-1-447671

Sampath Bank
55 D.R. Wijewardana Mawatha, Colombo 10
Phone: 94-1-448291/434431
Fax: 94-1-434217
E-Mail: mgr@oper.sampath.lk

Seylan Bank Ltd.
33 Sir Baron Jayatilleke Mawatha, Colombo 1
Phone: 94-1-437901~07, 446517
Fax: 94-1-433072

Standard Chartered Bank
17 Janadhipathi Mawatha, Colombo 1
Phone: 94-1-326671~74/433302
Fax: 94-1-432522

Union Bank of Colombo Ltd.
Level 28 East Tower, World Trade Center
Echelon Square, Colombo 1
Phone: 94-1-346346
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Development Finance Corporation of Ceylon (DFCC)
M.R. Prelis, General Manager
73/5 Galle Road, Colombo 3
Phone: 94-1-440366
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National Development Bank (NDB)
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40 Nawam Mawatha, Colombo 2
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Leading Companies in Sri Lanka

Hayleys Limited
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Fax: 94-1-699299
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John Keells Holdings Limited
Ken Balendra, Chairman
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Aitken Spence and Company Limited
R. Sivaratnam, Chief Executive Officer/Managing Director
Vauxhall Towers
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Carson Cumberbatch and Company Limited
Mano Selvanathan, Chairman
83 George R. de Silva Mawatha, Colombo 13
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Sri Lankan Airlines
Peter Hill, Chief Executive Officer
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Ceylon Tobacco Company Limited
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178 Srimath Bandaranayake Mawatha, Colombo 15
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George Stuarts and Co. Limited
Scott Dirckze, Chairman
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Multilateral Development Bank/IMF Offices in Sri Lanka

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Asian Development Bank
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USG-funded Programs Dealing with Economic/Trade Issues in Sri Lanka:

Technology Initiative for Private Sector (TIPS)
Ray Jubitz, Chief Executive
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United States-Asia Environment Partnership
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CHAPTER XII

APPENDIX F - MARKET RESEARCH

List of Available Market Research

International Market Insight (IMI) reports:

Food processing equipment market
Medical equipment market
Government Procurement-Amendments to regulations on appointment of agents
Television broadcasting services
Airport expansion
Major projects – expanding electric power sector in Sri Lanka

USDA/FAS commodity and market reports:

Grains Report for 1998
Market for packaged consumer-ready foods
Market for fresh fruits and vegetables
The structure of the Sri Lankan food retailing industry
Market Brief – bottled fruit juice

A complete list of market research is available from the National Trade Data Bank (NTDB).